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The Indonesian Quarterly

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- Challenges & Opportunities in the West Pacific Region

REVIEW OF ECONOMIC DEVELOPMENT

- Indonesian Economy at Stake: Up or Down

REVIEW OF POLITICAL DEVELOPMENT

- The Impeachment of President Wahid

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- The Implementation of Decentralization in the Forestry Sector
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- DFID Multi-Stakeholder Forestry Programme (MFP)
- The Political-Economy of Fiber, Finance and Debt
- Building Government-Donor Co-ordination
- Indonesian Forestry from World Bank's Point of View
- Government-Donors Interaction
- Foreign Assistance to the Indonesian Forestry



CENTRE FOR STRATEG
AND
INTERNATIONAL
STUDIES

The Quarterly

The Indonesian Quarterly is a journal of policy oriented studies published by the Centre for Strategic and International Studies (CSIS), Jalan Tanah Abang III/23-27, Jakarta 10160. It is a medium for research findings, evaluations and views of scholars, statesmen and thinkers on the Indonesian situation and its problems. It is also a medium for Indonesian views on regional and global problems. The opinions expressed in *The Indonesian Quarterly* are those of their authors and do not necessarily reflect the opinion of the CSIS.

The Logo



To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidharta, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusani Budi*", which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a memorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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FORESTS AS STRATEGIC ASSETS

By Ráymond Atje, Linda Christanty, Tubagus Feridhanusetyawan and Kurnya Roesad

Forests have provided a vital resource base for the Indonesian economy. However, the short-term economic interests have threatened the existence of forests as a resource base due to forest exploitation, which undermines the long-term ecological and social benefits that forests may offer. The current rapid rate of deforestation – compounded by the economic crisis – makes it imperative to re-think the overall development strategy in terms of emphasizing the links between human, economic and environmental security. The article also summarizes the current ongoing CSIS research on forestry issues. Specific topics of interests covered in the research include: the impact of the crisis on regulatory and institutional developments in the forestry sector; a quantitative and qualitative analysis of the crisis on the forestry sector; the links between property regimes and economic incentives in adopting sustainable forest management principles; and the decentralization process in forestry management.

THE IMPLEMENTATION OF DECENTRALIZATION IN THE FORESTRY SECTOR WITHIN THE FRAMEWORK OF SUSTAINABLE FOREST MANAGEMENT IN THE DISTRICT OF KUTAI KERTANEGARA

By H. Syaukani H.R.

The author emphasizes the importance of getting the pre-conditions right for forestry management in facing regional autonomy. Focusing on the district of Kutai Kertanegara, he discusses several important ecological, social and economic benefits of sustainable forestry management. The article also describes the process of decentralization in the forestry sector since 1995 and concludes with a discussion of four alternative forest management systems.

FORESTRY DEVELOPMENTS WITH REGARD TO DECENTRALIZATION

By Silver Hutabarat

The reform era brought a new path to democracy, followed by the emergence of a shift from a centralized to a decentralized government. The problems with decentralization in the forestry sector occur because of weak government; differences in vision, mission,

and strategic concepts between the central and local governments regarding the issues on decentralization; the lack of government regulations following the issuance of the new forestry law (Law 41/1999); the inadequate human resource capacity; the regional focus on increasing revenues; the difficulty in managing cross border forests; and the lack of understanding the principles of sustainable forestry management. Decentralization in forestry can only be successful if regional autonomy is implemented in stages; there is a fair share between forest-rich districts and forest-poor districts; and if the central government facilitates the process of developing the National Forest Program.

FORESTRY MANAGEMENT IN THE ERA OF REGIONAL AUTONOMY

By Nana Suparna

The lack of sustainable forest management practices to secure forest resources belies the significant contribution of the forestry sector to the national economy. The forest area is increasingly diminishing, while timber plantation developments do not match with the rapid expansion of the pulp and paper industry. There are four basic factors causing the bad performance of forestry management: the insecure property rights regime; the incapability of monitoring and implement the rule of law; the low professionalism in managing the forests; and the centralization of forestry management. The successful implementation of regional forestry management depends on how regional governments handle those four issues. Efforts to decentralize authority from the central government to the regional governments do not automatically mean that problems of 'centralization' will be solved. The required policy change depends very much on a change from a mechanistic to an ecological paradigm. The stakeholders' forum could provide the context in which such a change could take place.

THE POLITICAL ECONOMY OF FIBER, FINANCE, AND DEBT IN INDONESIA'S PULP AND PAPER INDUSTRIES

By Christopher Barr

This article examines the factors that have led Indonesian pulp producers to make large-scale investments in processing facilities without first securing a legal and sustainable raw material supply. It is argued that the country's pulp and paper conglomerates have been willing to invest billions of dollars in high-risk projects because their owners have been able to avoid much of the financial risks involved. Three factors that have allowed them to do so are: (1) heavy government subsidies, including access to wood from natural forest at costs well below its stumpage value; (2) weak regulation of Indonesia's financial sector; and, (3) failure on the part of international financial institutions to adequately assess the risks involved in pulp and paper investments. The paper concludes with several policy options to promote sustainability, including the elimination of

the wood supply subsidy to the pulp industry, the introduction of a credible independent monitoring program of plantation development and a moratorium on new pulp and paper processing capacity extensions until public audits of companies' pulp wood supply plans are carried out.

BUILDING GOVERNMENT-DONOR CO-ORDINATION TO IMPLEMENT FORESTRY REFORMS

By Neil Scotland and Boen Purnama

The article looks at the merits and otherwise of closer donor co-ordination. Experience with closer donor co-ordination in other countries and in other sectors is reviewed. The authors also discuss recent steps towards closer donor collaboration in the Indonesia forestry sector and possible options for the future. As the article is intended only to provoke further discussion on donor co-ordination, and as such draws only broad and impartial conclusions.

INDONESIAN FORESTRY FROM THE WORLD BANK'S POINT OF VIEW

By Thomas E. Walton

Indonesia needs a new approach to managing its forests, developed with participation of all stakeholders. The details should be left to the stakeholders, but one can project the key elements this new National Forest Program will need to include. The Government of Indonesia has already begun to take steps in this direction, but there has been little progress in the forests. The article lists several causes of deforestation including excess wood processing capacity, under-valuation of forests, official corruption, failure of governance and the rule of law, and estrangement of forest communities because of the failing past government policies. In addition, the author describes the Bank's role in providing policy inputs to the reform agenda in the forestry sector, such as its activity in coordinating the interaction between CGI donors and the Government of Indonesia. The author notes that the Government of Indonesia has recently been more receptive to advice on forest policies and showed political will to address the difficult issues such as illegal logging and corruption. These are encouraging developments that could pave the way for additional forest management assistance in the future.

GOVERNMENT-DONORS INTERACTION IN INDONESIAN FORESTRY

By Jozsef Micski

The article describes the process of institutionalizing government-donor cooperation in developing and implementing an integrated national forest program and to enhance inter-

agency cooperation. Three bodies have been established to achieve these targets: the Inter-Departmental Committee on Forests (IDCF), the Working Group for Coordinating the Implementation of the National Forest Program (NFP) and the Donor Forum on Forestry. The author raises several critical points about the effectiveness of those bodies and discusses several negative and positive current policy achievements and developments in the field. The negative developments include: the continued illegal logging and deforestation; the debt restructuring process of the largest wood companies which do not sufficiently address sustainable forest management principles; the practice of several districts under the decentralization program to allocate concessions in an unsustainable manner and the lack/absence of prosecution of offenders. On the positive side, the author mentions the Ministry of Forestry's progress in making public the results of forest inventory and mapping (but without addressing the land tenurial issues); the establishment of a Directorate of Forest and Estate Crops Fire Control; the recent moratorium on cutting of *ramin* species and a public statement of the President against illegal logging. In addition, eco-labeling/certification schemes deserve special attention to address the linkages between illegal logging and trade. Finally, the article proposes several priority measures which need to be undertaken: a high level joint political statement of the main decision-makers in the country (the President, Vice-President, DPR and MPR); rigorous implementation of the rule of law; promoting further the role of the IDCF as the main coordinating instrument for the NFP and continued policy dialogue.

FOREIGN ASSISTANCE AND INDONESIA'S FORESTRY SECTOR

By Agus Setyarso

Indonesia started to receive foreign assistance since the early 1980s and it was intensified after 1992, i.e. through GTZ, ODA, DFID, USAID, JICA, and EU. Other international institutions provided funding for research. After the crisis, forest management practices are greatly influenced by international agreements, i.e. in the 7 points in the Letter of Intent between the government of Indonesia and the IMF and the commitments to the CGI in October 2000. Although international assistance has intensified during the past decade, there has been little impact in the national performance of the forestry sector. There is a need for reviewing and institutionalizing forestry strategy and policy, and redefining international collaboration to meet the demand of Indonesia rather than merely receiving donor-driven assistance.

The Bush Administration's Policies: Implications for the Asia Pacific

Jusuf Wanandi

INTRODUCTION

A NEW presidency in the US always creates some uncertainty partly due to campaign rhetoric and platforms that hardly ever materialize. One can never be sure whether the new president would be committed to implement all the points that have been proposed. That happened with President Carter on the issue of the withdrawal of US land troops from South Korea. It was also the case with President Clinton on the issue of accepting gays in the armed forces.

It is also true that most new administrations think that they have to reinvent the wheel when they assume the office. This creates some havoc in the first year of the administration because they will try new policies as if what has happened so far has been in a vacuum. However, usually they will come to their senses sooner rather than later, and well-established policies, especially those that have bi-partisan support, will be resumed and continued.

The Bush Administration appears to be eager to review a lot of the old policies of the Clinton Administration, which they consider not realistic, too ideological, or falling behind with time. Of particular importance is the re-examination of US strategic doctrine, including the concept of mutual assured destruction (MAD) of the Cold War era. Nevertheless, the Bush Administration has to face a major constraint caused by the very late presidential election results, which has left many political appointees unconfirmed. This resulted in both lack of new policies and insufficient people to implement them, which impedes their efforts to go ahead.

They now only have nominated about 1/3 of the officials who had been appointed during the Reagan Administration. The Bush Administration is conservative in outlook and, appointed at the same juncture, can be compared with the Reagan Administration in 1980.

In the first year of their office, the Reagan Administration also had some problems in setting their policies right,

especially with regard to China. Generally they tend to be very unilateral at the beginning as had been shown *in extremis* by Jeanne Kilpatrick, the US Representative, at the United Nations. But there are differences between the two administrations. The Reagan Administration took place when the Cold War still existed. Today, with the end of the Cold War there is a greater sense of unity among allies and friends in facing one common enemy. However, such kind of glue no longer exists. Therefore it is going to be more difficult for the US to assert its own policies upon its allies and friends.

This administration, being strongly conservative in ideology, is supported by a very experienced team for national security: Dick Cheney (Vice President); Donald Rumsfeld (Secretary of Defense); Colin Powell (Secretary of State); Condoleezza Rice (National Security Adviser); Paul Wolfowitz (Deputy Secretary of Defense); Richard L. Armitage (Deputy Secretary of State); and James Kelly (Assistant Secretary of State for East Asian Pacific Affairs). Some of them used to be the members of the "dream team" for East Asians under Secretary George Schultz. However, times have changed in the last decade and there is a slight worry that they still continue to be "cold warriors". Yet, they are too smart not to understand that things have changed in the meantime.

EAST ASIA AND THE US

So far US policies towards East Asia have been bipartisan. This does not mean that in reality there have been

no nuances or different priorities, or even differences in implementation.

The Republicans seem to focus on the security part of foreign policy. They also pay particular attention to open trade and human rights as well as the ideals of democracy. Nevertheless, these have been part of any party's foreign policy and are not necessarily given first priority. While Democrats are more inclined to accept multilateral approaches in foreign policy, Republicans tend to be unilateral rather than multilateral in their attitude.

The Clinton Administration was more willing to support free trade, especially at the beginning of the first term, by pushing for NAFTA, the First Summit of APEC, and the conclusion of the WTO. These are efforts to help sustain and expand free trade regionally and globally. Since the loss of the fast track authority in trade in the last year of his first administration, Clinton's retreat from a pro-active free trade stance due to pressures from organized labor and some influential members of the Democrats in Congress, among others Representative Gephardt. Thus, the divide between the two camps are sometimes blurred, especially when facing circumstances that do not leave any administration with much choice.

More unilateralist tendencies could be discerned in the Bush Administration, because the National Security team is strong ideologically, and having no inhibitions about the Cold War and recognizing that the USA is the sole surviving superpower. They really believe in their policies and therefore tend to

be more difficult to convince to act otherwise. However, diversity in political outlook among the US public and Congress on the one hand and the developments in East Asia on the other hand may create a counter-balance to those unilateralist tendencies. Those in charge for national security and foreign policy are bright people and pragmatists, and understand that they have to adjust in due time.

What is certain is that the Bush Administration will have to pay more attention to East Asia, since this is the region where US future strategic challenges will be. Therefore, the main attention is on security and defense, which were somewhat underestimated during the Clinton Administration. Only at the end of the first term did the Clinton Administration pay some attention to security and the balance of power in the region, when tensions arose in the Taiwan Straits around the Taiwan election of 1995. Whether the Bush Administration's strategy is in congruence with the expectation of the East Asian countries will be discussed below.

Trade may be the next important item in US policies towards the region. Despite the crisis, East Asia is still the most prospective economic partner for the US. In addition, the future of East Asia as an economic region is still very promising. The US is the only power in the region that can make a difference in guiding China into the region and the world peacefully. At this stage it is also the only power that can counter-balance and constrain China. Containment makes no sense because China

neither has the ideology nor the political system that is opposed totally to the capitalistic ideology and to a democratic system.

While China preaches to abide by the Marxist ideology, in practice that is only a facade. Unlike the USSR before, her political system is more authoritarian than totalitarian. China is also not competing the US in the region or the world as an ideological, political, and military system. Instead, she has economic relations with the US substantially in terms of trade and investment, which did not exist before between the US and the USSR.

Between 1995 and 2000, the US annual investment rose 50% to US\$4.5 billion, making it the largest source of foreign investment in the mainland after Hong Kong. Over the same period, bilateral trade doubled to US\$116 billion annually. The US now buys 1/3 of China's exports, many made by US companies in China. Entry to the WTO is expected to make China a bigger buyer too. China accounted for 22 billion, or nearly half of the 47 billion raised in share issues in Asia outside Japan last year (Bank Credit Suisse First Boston Report). Including Taiwan and Hong Kong, the figure rises to 88% of the total compared to just 52% between 1995-1999; and the figures continue to grow.

"Competition and cooperation" could be the right expression for China-US relations. A strategic relation as the Clinton Administration tried to establish might be too ambitious and could not be real, since it has to be based on

values and political systems that both need to have in common. But to find the right balance between competition and cooperation is not easy for the Bush Administration, as they tend to stress the competition part, while the cooperation part has been left behind.

Some in the administration think that the political system in China is really evil and that China is the next "enemy" and therefore has to be contained. In contrast, Taiwan is a real democracy that has to be given the chance to choose for independence and has to be assisted. This is what the right wing of the Republican Party thinks about China and Taiwan. Its views on this are very ideological. At the same time, however, businesses that are closer to and are financial supporters of the Republican Party believe that China is a very important trading partner and a prospective place to invest in.

In the end, these two pressures will get balanced. For the time being the region and China need to keep a cool head and should not overreact in order not to make matters worse. It has to be admitted, however, that besides the ideological aspect, the style of implementing their policies in East Asia is also very important. It needs more finesse and refinement, and it should also be noted that face-saving is important in East Asia. In this sense, the Bush Administration needs improvements.

East Asia in general does not see China as an enemy. For China, economic development and modernization are put as the first priority. In fact, this may be China's last chance. A peaceful

environment is therefore of critical importance to her. Some of her policies are indeed still not well understood or acceptable, and compromise is not her strength. Thus, while the region does not see her as an enemy, it is watching very closely China's still uncertain course and strategy. A militarily strong China will be watched more intensely. Will she become a benign great power, like the US, that generally is and be willing to abide by international rules? Or, will she become a power that throws her weight around? Admittedly, it is still hard to make the judgment. China has to show more about her future policies and intentions through deeds. However, the region has to give her a chance to show her peaceful intentions and willingness to cooperate. In this regard, regional institutions, such as APEC or the ARF, can play an important role.

A modern China is expected to become a great power with greater moderation and democratization. However, she is not expected to become a source of instability in the region by behaving as a bully. That is why the US role in the region is still considered critical by the region, presently to balance China, and the future in cooperation with others in the region to guide China into becoming a responsible great power in the region and the world. ASEAN can contribute by making the regional institutions again relevant, and through those institutions, especially where the US is also a member, such as APEC and the ARF, to accommodate China's emergence as a great power. In so doing ASEAN will also support the development of positive relations between the US and China. ASEAN

Plus Three (China, Japan and Korea) as a new regional instrument could also be useful in accommodating China's emergence, especially through economic and political cooperation.

Any idea of containing China, as has been proposed by the rightwing part of the Republican Party, will not only create havoc in the region, but is not going to work either. *First*, this will create an even greater instability and tension in the region and will affect the region's economic dynamism that already got a beating from the financial and economic crisis. This will be detrimental to the US itself, because an important economic partner could not perform any longer.

Second, it will not be successful. As distinct from the containment during the Cold War, the region includes US allies and friends like Japan, South Korea and ASEAN that do not see China as an enemy. There could be some pressures from the US on her allies and friends in the region. However, without their participation, containment simply will not work. This is especially true if the Pentagon does everything by deploying new strategic weapons based on continental USA, as shown in the new defense review. This will happen if the views of the strategist Andrew Marshall, doing the review for Secretary Rumsfeld, are endorsed. Opposed to this view is CINCPAC Admiral Dennis Blair's strategy that proposed a more mixed strategy that is based on regional military presence and continental based-strategic weapons. This mixed strategy is more credible in the region.

The early gestures of the Bush Administration to put back a strong re-

lation with Japan should be most welcome because that relationship has been too much taken for granted by the Clinton Administration. However, that strong partnership has to be lived up too by the US. The US will make a mistake if she thinks that Japan is going to be willing to confront China. Japan is an ally, but she is also searching for her own role in relations to the region, particularly China. It is also encouraging that the Bush Administration is also cultivating India, which is an important country. More than Japan, India had always shown her independence on a lot of policies, including in her relations with China. She definitely would like to establish stronger relations with the US. India might be more supportive of the NMD (National Missile Defense), but she will not readily go along with a containment of China.

That proposition also holds with regard to South Korea China's cooperation to convince North Korea to be willing to seek for a peaceful reunification. Therefore, she will not deal with China in a confrontational mood.

ASEAN is another friend of the US. ASEAN countries appreciate US military presence in East Asia and are willing to go along with many US policies, although most of the members are not US allies. Some are engaged in joint exercises and training with US forces. They also think that the US military presence is a prerequisite for peace and stability in the region. They will support the US to continue to keep the safety and the openness of the sea-lanes through the South China Sea, where there is a dispute between China and four of the ASEAN members. In that sense

they consider that surveillance and intelligence gathering of the US on international waters should be acceptable, including in the South China Sea.

However, they also think that containment of China at this stage is wrong and might indeed make China an enemy. ASEAN does not want that to happen. On NMD, most ASEAN countries do think that the US is still in the formation stage to decide what is exactly to be done. More explanation is necessary; US allies and friends should be consulted for feedback. While the Bush Administration has decided on the need for a new strategy policy, to include a defensive missiles system on top of an offensive one, it has yet to decide on what is to be included, how extensive, and how to implement.

As long as the system is not destabilizing internationally, and stability and security could be preserved for US allies and friends, while accelerating the reduction of nuclear warheads and their systems, the strategy should be exercised. It should not replace the adequacy and effectiveness of US conventional weapons either.

This means that a lot more consultations and explanations as well as feedback should be undertaken all the time before decision on a definite system is going to be made. Attention should also be given to what Russia and China might have to bring up.

TRADE AND ECONOMIC RELATIONS

The East Asian region has great expectations in trade and economic relations, which might be a second priority for the Bush Administration. The region

has been disappointed with the minimal participation of the Clinton Administration in resolving the financial crisis in East Asia. They left too many things to the IMF and IBRD to overcoming the crisis, except in the case of South Korea. However, when the East Asians wanted to initiate something for themselves that was shot down by the US. More importantly, they have not exercised leadership in the WTO and in APEC because Clinton was no more interested in pushing for free trade since he got a lot of opposition from his own supporters in the labor movement and in Congress.

Hopefully under the leadership of Secretary Zoellick, the Bush Administration will push again for the next round of multilateral trade negotiations. As he has said publicly, he is willing to do it also for the sake of the developing nations, especially in fighting protectionism in industrialized nations, including in agriculture, textile and footwear. In addition, Zoellick is well versed on APEC and might also want to reinvigorate this regional process, which is so important for both economic and strategic reasons.

His willingness to get fast track authority in trade deals from Congress as a priority is considered a most important tactic that will create credibility in the eyes of US trading partners. Since East Asia has been so much dependent on the US economy for their export-driven recovery, a healthy US economy might be one of the most important gestures that the Bush Administration could give to the region. Therefore, Bush's economic policies will be followed closely, and the debate will be listened

to very attentively. At this stage, the region's economic welfare could be the most important issue in the Asia Pacific; and, an important aspect of this is US role and participation.

The US is expected to be well aware of the region's priority. The reason is simply because it is now the most urgent matter to be tackled, including and particularly to overcoming the crisis and to push through with the necessary reforms. Security and defense matters are also developing fast in the region and might indeed face a real strategic change in the future. But they are not as immediate and urgently felt in the region. While the specialists focus on strategy and defense, economic matters concern the interest of the whole populace and therefore, are more pressing for the leaders.

CONCLUDING REMARKS

Compared to the Clinton Administration, the Bush Administration might give greater attention to East Asia and the Asia Pacific. This is not only for strategic reasons because of the shift of strategic challenges to this part of the world, but also for economic reasons. Despite the crisis, East Asia is still the most important region for US economic interest. In addition, at the highest level of the administration, some top-level appointments consist of people who have extensive knowledge of and experience with East Asia. They will keep the interest in the region steadier in the future.

The more unilateralist tendencies of the administration, especially in strategic

and defense matters, will have to be watched carefully. Since every new US administration always tries to reinvent the wheel and thinks that the world is square, time and real problems will gradually change that. This also happened even with the most ideological of administration, such as Reagan's. The national security team is composed of bright people that will learn quickly and adapt to the reality. Of course, there are other factors that may prevent this. These include the ideological inclination of the Bush Administration, the non-existence of a common enemy such as in the Cold War, and the status of the US as the only superpower.

But then, politics in the USA goes never one way because of differences in ideology and alignments, in the society as well as in Congress. Therefore, one-sided policies be always be pushed to the middle. Developments and initiatives in East Asia will help to put some balance in US policies. Although the economic realm is still second in importance, the fact that the region demands clear US economic policies might help shape the economic agenda of the Bush Administration.

In the end it is important to note that patience with a new US administration will always pay off and that change will always happen in the direction of more pragmatic policies. It is also very useful if member countries in the region go hand in hand and move in tandem with the US to create peace, stability and economic dynamism in the region. In that way, their voices will be more listened to than if the region is seen as rudderless and unorganized.

Challenges and Opportunities in the West Pacific Region: Is There Any Need for A New Forum?*

Hasjim Djalal

THE WEST PACIFIC REGION

THE area to be covered by this topic would include Northeast Asia, Southeast Asia which both could be identified as East Asia, and the South Pacific countries, that consist of Australia and New Zealand. For East Asia, there are already several fora which discuss a number of issues. The most notable fora in this context are the Ten ASEAN Countries and the ASEAN+3 Forum which include the dialogue between the ASEAN countries and its three dialogue partners in Northeast Asia, namely China, Japan and South Korea. The ASEAN+3 dialogue deals with a number of issues, particularly on their trade and economic relations. So far the ASEAN+3 dialogue forum has been regarded as very important to maintain and to develop cohesion between Southeast Asia and Northeast Asia. It is to be expected that this forum would gain significance in the future, particularly in view of the increasing interlink between ASEAN and the Northeast Asian countries in the West Pacific region.

In addition to the ASEAN+3 Forum, ASEAN has also been maintaining a bilateral forum with China within the context of ASEAN-China dialogue. Besides the economic and trade issues, ASEAN-China dialogue has also given a lot of attention in recent years to developing "Code of Conduct" for the South China Sea. The ASEAN-China dialogue is expected to be equally significant in maintaining peace and promoting cooperation in the South China Sea area.

Together with other members of the ASEAN Regional Forum, including Western Europe and North America as well as India and Russia, and certain South Pacific countries, such as Australia, New Zealand and PNG, the Southeast Asian and Northeast Asian countries have been important participants within the context of ASEAN Regional Forum (ARF). The ARF has become an important forum for discussing security issues, particularly on the West Pacific region. It has gained momentum within the last couple of years; and accordingly its roles are expected to remain significant in the coming years.

The West Pacific region has also been involved in the APEC (Asia Pacific

* Paper presented at the Seminar Indonesia-Australia, PKA-UI, Jakarta, 12-13 June 2001.

Economic Cooperation) together with North America and Pacific South American countries with regard to the issues on economy, trade, and investment. The APEC has become an important forum within the context of those issues. The APEC will most likely become more important, particularly in terms of trade liberalization and economic development, in the near future.

Certain West Pacific region countries, particularly ASEAN and the Northeast Asian countries, are also involved in the ASEM (Asia Europe Meeting) which has been trying to develop mutual understanding and cooperation between the two major regions. The ASEM would become increasingly important due to its efforts to promote cooperative relations between certain West Pacific countries and Europe in the coming years. It should be noted, however, that Australia, New Zealand and other South Pacific island nations are not included in the ASEM forum.

On the informal set up, a number of regional efforts have developed substantially. Within the context of APEC, the West Pacific countries have been actively participating in the PECC (Pacific Economic Cooperation Council) as well as in a number of its task forces. The PECC has brought together not only the East Asian and the South Pacific countries but also certain Latin American countries. The PECC task forces have been successful in certain areas, albeit slow in other areas, such as in the field of fisheries cooperation. While the future of PECC and its task forces are important, their future seems to be some-

what uncertain since most of their topics are already being taken up by APEC.

Within the context of ARF, the CSCAP (Council for Security Cooperation in the Asia and Pacific) has currently played an active role in developing various areas of cooperation in the Asia Pacific region, including maritime issues. The CSCAP had covered a wide range of issues and has been contributing to a better understanding of the problems in the region, including maritime issues.

Specifically with regard to the South China Sea, for the last ten years the informal South China Sea Workshop on Managing Potential Conflicts and Promoting Cooperation in the area has been actively attempting to convert confrontation to cooperation. The Workshop process, so far supported by Canada, has been participated by the authorities around the South China Sea area, namely all ASEAN members except Myanmar, together with China and the Chinese Taipei. The Workshop process has gained positive responses, regionally and internationally. It is regretted, however, that Canadian support to this program has been terminated this year.

THE SOUTH PACIFIC REGION

In the South Pacific, various efforts at promoting regional cooperation have also developed significantly. Even before the independence of the South Pacific countries, the major ruling powers in the area had already established the South Pacific Commission (SPC) in Noumea, New Caledonia. The SPC has focused its activities on maritime research

and development, particularly in fisheries resources. As such, cooperative efforts between the SPC and Indonesia in fisheries research have taken place from time to time, although this cooperation has not been properly structured.

After the South Pacific countries gained independence, they established the South Pacific Forum (SPF) with the already independent countries such as Australia and New Zealand. The Forum, headquartered in Fiji, generally deals with all regional matters and therefore contains elements of political cooperation. The forum has been instrumental in developing the South Pacific policies with regard to environment, nuclear weapons, as well as cooperation in fisheries matters. In fact, the Forum has established the Forum Fisheries Agency (FFA), headquartered in Honiara, Solomon Islands. The FFA has been very successful in promoting cooperation and maintaining common policies with regard to fisheries matters in the South Pacific. Those successful efforts cover the development of common policies with regard to distant water fishing nations and the promotion of common enforcement policies as well as common blacklisting policy of violating fishing vessels.

ROLES OF MAJOR POWERS IN THE SOUTH PACIFIC REGION

It should be understood that there are two major countries in the South Pacific, namely Australia that maintains a strong policy and "influence" in the Melanesian South Pacific on the Western side of the South Pacific island nations, and New Zealand that maintains

a strong influence in the Polynesian side of the Eastern part of the South Pacific. At the same time certain big powers still play significant roles in the area, such as the US, specifically in American Samoa and Guam, France, specifically in the French Polynesia and New Caledonia, and the UK in Pitcairn Islands and others. The interplay of the interests of these major powers can be very significant in the South Pacific region.

Several non-regional powers have also pursued specific interests from time to time in the South Pacific. During the height of the Cold War, the Soviet Union had paid special attention to the South Pacific island nations by offering support to their policy on de-nuclearization, thus attempting to drive a wedge between the South Pacific island nations and the major nuclear powers of the western countries (US, France and UK). The Soviet Union had also pursued an "aggressive" policy on fisheries cooperation in the region and at the same time strongly supported the national independence movement in the area, particularly in New Caledonia. With the demise of the Soviet Union, Russia as one of its successor states, has not shown similar attention to the South Pacific island nations lately.

China has shown its interests in the South Pacific islands nations, particularly due to her competition with Chinese Taipei in the area. This is reflected in its presence in the Pacific islands nations that is aimed to preempt Chinese Taipei from expending its presence in the area through its "dollars diplomacy". Yet, at this moment

the Chinese Taipei still maintains significant diplomatic relations with certain countries in the South Pacific, particularly Palau, Solomon Islands, Nauru, and Marshall Islands. Many observers are now seeing a much more prominent attention of China toward the Pacific islands nations in the coming years, since it is becoming a major maritime power in the Pacific. Many analysts consider that China may want to expand its presence in the South Pacific in the future in the context of the possible and upcoming rivalry between the US and China in the Pacific area.

Japan and South Korea have also maintained specific interests in the South Pacific island nations, particularly in the field of fisheries, the most important resource of the Pacific island nations. Yet, the role of the Western countries will most likely remain very strong in the South Pacific, despite the increasing role played by China in the area and the increasing "rejection" by certain Pacific island nations toward the "dominance" of Australia, New Zealand, the US, France, and the UK in the area. Therefore looking at China from time to time as a counter balancing force, it seems that the South Pacific countries as a whole is still very much safe toward the Western world.

Specifically with Indonesia, the South Pacific has generally become some kind of "benign neglect" by successive Indonesian Governments. While GBHN (State Guidelines) 1983 and 1988 obliged the Government to promote relations with the Southwest Pacific countries, the GBHN since 1993 did no longer mention relations with the South

Pacific or Southwest Pacific, but subsumed it within the relationship with Asia and Pacific countries.

So far, Indonesia has maintained special relationship with the South Pacific countries, particularly with the island nations. Since the beginning of the preparation for the Law of the Sea Conference in late 1960s and throughout the Law of the Sea Conference from 1973 to 1982 and there after up to now, Indonesia has close cooperation and shares similar views with all the South Pacific countries. During that period, Indonesia has worked jointly with Australia, New Zealand and other Pacific island nations to developing maritime regimes on Continental Shelf and Economic Zone. Indonesia maintains close cooperation with the South Pacific island nations, particularly Fiji, Vanuatu, PNG, and Solomon Islands regarding the regime of Archipelagic States, the regime of Marine Environmental Protection and Marine Scientific Research as well as the regimes concerning the International Seabed Area. The maritime dimension and cooperation in this regard have been very strong between Indonesia and the South Pacific countries, although sometimes they have not been fully utilized for the benefit of Indonesia and the South Pacific countries. It should be noted that this strong cooperation in the field of maritime affairs also extends to the Indonesian cooperation with the South Pacific island nations within the context of Asian Group and the G-77 of Developing Countries in maritime and Law of the Sea matters.

The problem of East Timor, however, had become one of the major "irritants" in the relations between Indonesia and the South Pacific countries, particularly Vanuatu that strongly supports the Fretilin group in East Timor. Equally, the problem of Irian Jaya has created some troubles in the relations between Indonesia and the South Pacific island nations, particularly in the Melanesian group, including Vanuatu and PNG.

Much attention should be paid to the South Pacific region as one of the main "corner stones" of Indonesian foreign policy, especially because of the Indonesian "soft-underbelly" in East Timor and Irian Jaya and perhaps also in the South Moluccas. The South Pacific used to focus on these areas due to its ethnic and geographical proximity.

In fact, the Indonesian government did pay special attention to the Pacific island nations as a result of GBHN in 1983 and 1988. On a number of occasions the Indonesian delegates visited the South Pacific countries, particularly Australia, New Zealand, Fiji, Western Samoa, New Caledonia, Vanuatu, Solomon Islands, PNG and others during that period, trying to explain Indonesian policies towards the South Pacific and in what area cooperation could be further developed, in addition to already flourishing cooperation in the field of the Law of the Sea. At that time it was suggested that Indonesia should become an observer in the South Pacific Forum, just like PNG becomes an observer in ASEAN, so that both Indonesia and PNG could become the links that will strengthen relations between ASEAN and

South Pacific Forum. Unfortunately the Indonesian efforts in this context was not successful, presumably due to the objection or non-support of Australia at that time. After all, Indonesia has now become a dialogue partner of the South Pacific Forum. Hopefully Indonesia will be able to strengthen the relations with the South Pacific countries through this mechanism.

At that time, Indonesia was also suggested to strengthen its relations with the Pacific island nations by opening diplomatic relations, particularly with Fiji, just like Malaysia did. Unfortunately this suggestion never materialized although later the Indonesian government did expand its presence in Africa (Namibia, Zimbabwe, South Africa, Senegal, Sudan), the Gulf States, and Latin American countries. Indonesia did not attempt to expand its presence in the South Pacific countries, although they are important for Indonesia to safeguard its "soft-underbelly".

Recently, Indonesian cooperation with the South Pacific countries has existed again in the field of maritime affairs, particularly in preparing a Convention for Conservation and Management of Tuna in the West and Central Pacific. These efforts have been successful because of the similarities of policies between Indonesia and the South Pacific countries. This is the maximum that both countries could achieve at this moment to manage the ocean resources for the benefit of their peoples. Nonetheless, Indonesia so far has not signed the Convention which had already been adopted in Honolulu in September

2000, although it participated actively in its drafting. Again Indonesia did not participate significantly in the First Meeting of the Preparatory Conference to establish the West and Central Pacific Fisheries Commission, which met for the first time in Christchurch, New Zealand on 23-28 April 2001.

Lately, Indonesia has been taking an active interest in promoting the establishment of a new Forum, the so-called West Pacific Forum, consisting of Indonesia, Australia, East Timor (when it becomes independent?), PNG, New Zealand, and the Philippines. Yet, it is not yet clear what would be the main area of activities of the new Forum. It appears that the new Forum is intended to expand cooperation between archipelagic states of ASEAN (Indonesia and the Philippines) and certain South

Pacific countries, perhaps with a view to assuring a peaceful transition in East Timor and the continued integration of Irian Jaya within the Unitary State of Indonesia. If so, what would be the views of other small islands South Pacific countries who may be overlooked in the new Forum? They are expected not feel "confronted" by this new initiative, if one of the objectives of this Forum is to alienate their views regarding Irian Jaya as being their "ethnic brothers" within Melanesian solidarity. At the same time, what would be the views of other non-archipelagic ASEAN members? It is hoped that they would not feel that Indonesia is having "second thought" of the usefulness of ASEAN, uniting together the mainland as well as insular Southeast Asia, and the need to strengthen its role in the region.

REVIEW OF ECONOMIC DEVELOPMENT

Indonesian Economy at Stake: Up or Down

Staff, Department of Economics, CSIS

INTRODUCTION

ALTHOUGH the economic growth in the first quarter of this year still grew moderately, other economic indicators show that the overall economic performance is weakening. Expenditure on investment and imports of intermediate inputs decreases, and consumer and business confidence remain weak. Monetary policy is still not tight enough; without significant intervention, increases in fuel and electricity prices, and the weakening of the Rupiah, will increase inflationary pressure in the coming months.

Deteriorating macroeconomic conditions have caused the budget deficit to blow out. In response to such a condition, the government has been forced to revise the budget by raising taxes, increasing fuel and electricity prices, and cutting funding to local governments.

ECONOMIC GROWTH

The economic growth in the first quarter was 2.6%, while on a year-on-year basis growth in the first quarter of this year was

4%. The growth comes largely from the high growth in agriculture (15.4%) which coincided with a good harvesting season. Excluding agriculture, GDP growth declined from 1.8% in the last quarter of 2000 to 0.3% in the first quarter of this year. Still, GDP growth is stronger in the first quarter of this year than at the same time last year.

On the expenditure side, export is the main contributor to the GDP growth. Table 1 shows the GDP growth that is broken down by types of expenditure. Besides exports and household consumption expenditure, which grew slightly by 1.1%, other expenditure components of GDP decline from the last quarter, including capital formation and imports. The negative numbers of growth in these two important components to the long run out put indicate the slow-down of longer economic growth.

MONETARY DEVELOPMENTS

The inflation rate reached the double digits again in March and April, which was by 10.6% and 10.5% respectively. During

Table 1

GDP GROWTH BY EXPENDITURE (% CHANGE)

	Q-to-Q		Y-on-Y	
	Q4 2000	Q1 2001	Q4 2000	Q1 2001
Household consumption expenditures	1.22	1.13	4.67	4.79
Government consumption expenditures	8.23	-0.44	12.08	5.96
Gross fixed capital formation	2.60	-0.14	15.82	10.20
Exports of goods and services	-0.89	4.85	14.2	11.65
Imports of goods and services	16.59	-4.29	44.23	34.09
GDP	-0.72	2.60	5.23	4.01

Source: Central Board of Statistics, "Berita Resmi Statistik", No. 14/IV/18 May 2001.

the year 2001 alone the inflation rate already reached 2.5%. All components of the CPI (consumer price index) increased steadily, although food prices did not rise in line with overall inflation. This is implied in recent large harvests of Indonesia's main food items such as rice.

The Rupiah reached Rp 11,900/US\$ in the end of April and has floated around Rp 11,000-11,500 since then. Besides, the pressure for depreciation persists, as market confidence remains deteriorated due to the political instability and problems with international donor such as IMF and World Bank.

Inflationary pressures will continue to be very strong. Though the measures are yet to be approved by parliament, the government's budget revisions include increasing fuel and electricity prices by 30% and 20% respectively in mid-June. Weak currency has also been the major source of high inflation. Although

beneficial to exports, the weak Rupiah also makes the country's imports more expensive. As an attempt to control inflation and strengthen the Rupiah's currency, BI continues the tight money policy. However, BI is still faced with problems in executing its policies independently due to the existing intervention mainly on the part of the government.

Monetary Policy: Not Tight Enough

Base money supply continues to grow despite the possibility of higher rate of inflation. Up to April, money supply grew by an average 18% on the year-on-year basis. Theoretically, the high money supply growth will result in more inflationary pressures to the economy. Given that economy is predicted to grow about 3.5% this year, the growth of money supply can be expected to push the inflation rate up to about 15%. Tighter monetary policy is required in order to control such inflation.

The SBI rates, however, have increased by only 1.4 percentage points from 14.9% in March to 16.3% in May, while deposit rates are even below the SBI rate. With yearly inflation rate approaching 11%, real interest rate is too low to halt inflation, and will have to rise.

Twofold problems are likely to arise as a result of the increased interest rate. *First*, most of the banks will highly depend on the interest from the bonds used to recapitalize them, whereas a half of the bonds pay a fixed rate interest. In case of higher increase in the interest rates, the banks will be in trouble, which will generate more risks to another banking collapse.

Second, the burden will be put on the government budget, as interest rate increases. A one-percentage point increase in interest rate would cost the government an additional Rp2.2 trillion in interest payment on variable rate bonds. Furthermore, the government's guaranteed-deposit scheme, which currently insures bank deposits up to a return of 15.5%, will also create another problem. Should the government want banks to increase their deposit rates further, it will have to let Bank Indonesia increase the guaranteed rate first, which will increase the government's exposure in case of bank default.

FISCAL DEVELOPMENTS

Deteriorating macroeconomic fundamentals have caused the projected budget for 2001 (January-December) to swell enormously. The growing deficit has resulted largely from the increased

expenditure on items that are sensitive to exchange and interest rate fluctuations, such as interest payments for domestic and foreign debts, fuel and electricity subsidies as well as funds transferred to local governments. The projected budget deficit has increased to about 6% of GDP, from the initial forecast of 3.7% of GDP. In addition, some revenue-raising measures have been delayed, and some foreign loans earmarked as budget revenues were cancelled. The growing deficit has led to a projected financing gap of about Rp34 trillion, which the IMF and the government know has to be reined in.

The government already proposed an adjustment of the budget based on the new assumptions of economic growth 3.5%, the exchange rate of Rp 9,600/US\$, interest rate of 15% and the inflation rate of 9.3%. Table 2 shows various revisions on the new budget, which is expected to cover projected financing gap.

In addition to the "too optimistic" assumptions behind the new budget, the government's proposed policies for budget revision do not represent a thorough overhaul of its expenditure and revenue-raising capabilities. An increase in tax revenue will be difficult to achieve due to the sluggish economic condition. The government's plan to reduce subsidies will be unpopular to the public, especially given the current political climate. Moreover, the plan to reduce the decentralization fund will be strongly opposed by the regions, which are already suspicious of the central government. However, we expect most of the budget amendments

Table 2

FUNDS TO BE RAISED FROM THE PROPOSED BUDGET REVISION

Policy Measures	Trillion of Rupiah
1. Increasing VAT revenue (from 10% to 12.5%)	6.5
2. Increasing excise taxes of tobacco and alcohol	0.5
3. Reducing personnel expenditure	2.0
4. Reducing fuel and electricity subsidies	9.4
5. Reducing development expenditure in RUpiah	3.4
6. Reducing funds transferred to local governments	8.1
- reducing the balanced fund	5.1
- reducing the contingency fund	3.0
7. Increasing 'other non-tax income'	1.5
8. New government bonds	2.9
Total (which is equivalent to the projected increase in the budget deficit)	34.3

Source: Ministry of Finance, *Fiscal Adjustment Package of 2001 State Budget*

to be approved by the parliament in the next few months, despite the high political tensions between the government and parliament.

BANKING UPDATE

Re-capitalization Progress

In the year 2000 Bank Indonesia completed the bank re-capitalization program by placing Rp430.4 trillion in terms of government bonds into the re-capitalized banks. It was expected that the bonds would provide a further source of funds for the banks, either through their sale or their use as collateral for business activities.

In fact, the sale of the bonds or their use as collateral is unlikely to happen. A secondary market for government

bonds has not developed, and their price has dropped below their nominal value due to the lack of confidence to the government as well as higher domestic interest rate. At the end of 2000, only 4.5% of the value of bonds is traded at a high discount price, from the permitted level of 25% of the value of bonds, while only 19% of the bonds are used as collateral.

The government has target to divest its equity in the domestic bank by the year 2004. However, the sale of the equity is not taking place at the pace needed to promote banking recovery. For example, months ago the government scheduled the sale of Bank Niaga. After long deliberations about the sale, it turns out that Bank Niaga is not sellable. The rate of return that has been

receiving on the bonds, which is its main source of income, is below what it has had to pay depositors, and it is at risk of requiring a further re-capitalization.

However, the government cannot afford to wait for unrealistically high purchase prices before it divests more banks. A new government needs to act fast to return the viable banks to the private sector. Meanwhile, the state's continued ownership of much of the banking sector is encouraging bad management practices, and the sector's past problems could happen again.

"Bad" Loan Progress

Table 3 shows the outstanding non-performing loan in the banks under the supervision of Indonesian Banking Restructuring Agency (IBRA) as of 21 April 2001. From 271.87 trillion of bad loan taken over by (IBRA), only 36% has been managed, of which only 3.4% were recovered. In total there are still about 64% or around 174 trillions of bad loans in progress and under litigation. In addition, as of April 30, IBRA had met 24% of its cash target for the year.

To accelerate the restructuring process for debts of less than Rp5 million, IBRA has discounted interest on debts by 25-50% and penalties by 100%, where debtors are willing to settle their debt and they have the ability to do so. Also, IBRA is continuing with the implementation of the second stage of the Special Crash Program. The Program aims to settle the outstanding loans of small and medium enterprises and the retail sector, again by offering them an incentive to do so.

Table 3

BAD LOANS TRANSFERRED TO IBRA (AMC) (AS OF 21 APRIL 2001)

Group of Banks	Outstanding (Rp trillion)
BBKU	36,13
BBO	26,03
BTO	51,35
Recap. Banks	12,96
State Banks	145,40
Total	271,87
Debts paid:	3.4%
Debts sold:	2.7%
Debts restructured:	30.0%
Debts in progress:	48.4%
Total in litigation:	15.5%
Total	100.0%

Source: "The Indonesian Bank Restructuring Agency (IBRA)", Presentation Paper by Kunto Wibisono at the Workshop on "Credit Crunch in Indonesia" organized by Bank Indonesia.

BALANCE OF PAYMENTS

Stronger export growth and weaker import growth saw a trade surplus of US\$5.7 billion, and a US\$1.45 billion current account surplus in the first quarter of this year. Export itself grew by 10.4% in March, of which 74% were non-oil commodities. Export growth is significantly lower than that at the same time last year when idle capacity meant they could bounce back from the economic crisis, and country's prospects were brighter (see Graph 1). Recently, gross fixed capital formation has been

declining, and imported inputs are more expensive with the weaker Rupiah, and bank loans are still limited.

After declining by 10.5% in January, and 0.2% in February, imports increased slightly by 0.4% in March. So overall, in the March quarter, imports fell by 12%. Oil and gas imports accounted for 10% of total imports and they fell by 8%, while 90% of total imports were non-oil and gas commodities, which decreased by 40%. The decline in imports shows that demand is being affected by the continuing depreciation of the Rupiah.

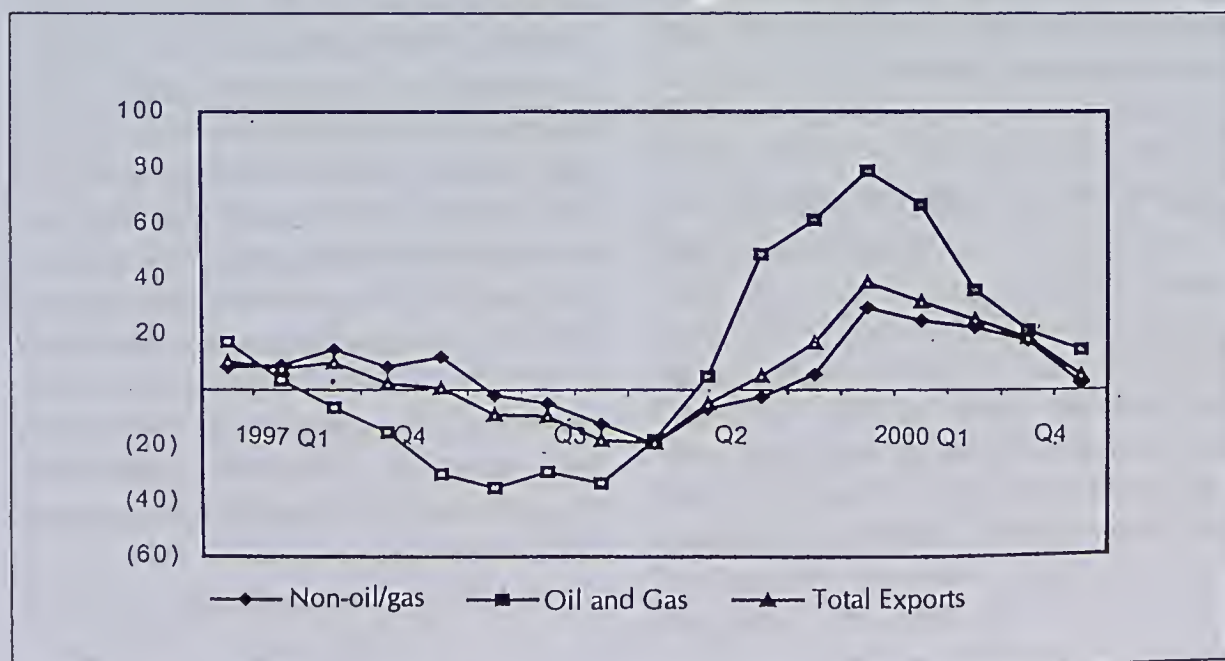
Imports of all categories of raw materials and intermediate inputs have declined since their peak in November 2000, especially intermediate inputs for industrial purposes. Imports of capital

goods continue to increase slightly and imports of consumer goods have declined slightly since September. Both capital and consumer goods, however, make up a small portion of the total imports.

On the capital account, deficit continued in the March quarter, when it was US\$1.9 billion. Net official capital, which is the difference between the government's borrowing overseas and its debt repayments, was about US\$3.2 billion last year and US\$18.5 billion in the three years since the crisis. On the other hand, Indonesia is still experiencing a huge private capital outflow, both in terms of foreign direct investment and short-term capital, of about US\$10 billion, with US\$33 billion in net capital outflows in the three years since the crisis.

Graph 1

EXPORT GROWTH, QUARTERLY DATA, Y-O-Y, % CHANGE



Source: Central Board of Statistics, *Berita Resmi Statistik*, various editions.

INTERNATIONAL DONOR SUPPORTS

Budget problem is now the major concern of the IMF on deciding whether their loan disbursement program will be continued or not. The IMF insists that the government should revise the budget with the approval from the Fund before it goes to parliament. In previous negotiations, the IMF has already tied the disbursement to four economic reforms: (1) the amendment of the Central Bank Law; (2) responsible fiscal decentralization; (3) progress on asset privatization, especially on two banks currently under IBRA's ownership (BCA and Bank Niaga); and, (4) the handling of debt restructuring.

If the government does not win the support of the IMF, the implication to debt rescheduling agreement with the Paris Club and CGI will be very serious. In April 2000, the government reached an agreement with the Paris Club to reschedule over 20 years the US\$5.6 billion Indonesia owes it. But as a result of the worsening government-IMF relationship, the Paris Club cancelled negotiations with Indonesia and required the government to repay the matured debt of US\$2.8 billion in March, which is impossible for the government to do.

Nonetheless, Australia, Canada, and France, being members of the Club, have agreed to postpone discussions of debt repayment until the next meeting, in the middle of the year. The Club has hinted that Indonesia needs to meet two conditions if it is to receive debt relief. *First*, the government's economic program

must have the approval of the IMF. *Second*, the government should not continue its plan to secure US\$500 million in bonds backed by revenue from gas exports to Singapore to finance the budget deficit. To placate international donors, the government had already backed down from these plans.

Bad relations between Indonesia and the IMF also put at stake the future of the CGI loan pledge and World Bank support. The CGI gave a clear message that further loans will be tied to progress in its relationship with the IMF and development issues, such as a clear strategy on poverty reduction and a sound forestry-management program. The government recently set up a special poverty reduction agency in charge of developing poverty-alleviation strategies.

The World Bank has also revised its loan pledge to Indonesia from US\$1.3 billion per annum previously to US\$400 million per annum. The World Bank also cancelled the disbursement of the US\$300 million it pledged as the second phase of a US\$600 million Social Safety Net (SSN) package. According to the World Bank, the second disbursement was cancelled because the SSN program has become less effective, and the Indonesian government has not been able to meet some terms required for the disbursement. The government claims that the cancellation of the loan is part of its move to receive cash rather than project-based assistance.

The Impeachment of President Wahid and the Emergence of Mega-Hamzah Leadership

M. Djadijono

FOR the last three months, Indonesia's politics saw a tiring and dramatic process of leadership change that ended in the impeachment of President K.H. Abdurrahman Wahid and subsequently the installment of Megawati Soekarnoputri as the new President of the Republic of Indonesia in 23 July 2001. Many had expected that this was going to happen sooner or later, mainly because of the President Wahid's own behavior which was erratic and impossible to work with. In the end, he alienated supporters by allowing an oversized ego to cloud his better judgment. However, no one is sure that the leadership change will soon improve Indonesia's situation given the multi-complex political and economic problems faced by the country. This is to say whether the new president can serve out her term until 2004, remains an open question. Any Indonesian leader seems to be very much vulnerable in such a climate of political and economic instability.

The future of Indonesia is by no means certain. That process of leader-

ship change might show the weakness of the country's constitutional democracy, causing uncertainty in the country. It would be interesting, to see the constitutional as well as political problems coming out from the process of the leadership change. This is to argue that although the replacement of President Wahid by the Vice President Megawati was applauded by many, the same fate could well be experienced by President Megawati in her term of office, because of the uncertain constitutional and political processes in current Indonesia.

THE BACKGROUND OF THE MPR SPECIAL SESSION

The period of November 1999 to the third week of July 2001 was marked by the disharmonious relation between President Wahid and the Houses of Representative (DPR). This was ignited early on by President Wahid's calling the DPR a "kindergarden." However, many of Wahid's statements and attitudes were controversial in ways that dissatisfied not only the Central Axis that nominated him as

President but also the majority of the DPR. From then on, there seemed no days of the DPR without political efforts to shake the presidency of Abdurrahman Wahid.

The first effort was the use of the DPR right to question President Wahid on the cases of the dissolution of the Department of Information and the Department of Social Affairs, and of the dismissal of Yusuf Kalla and Laksamana Sukardi respectively as Minister of Trade and Industry and State Minister of State Enterprises on July 2000. This was followed by the establishment of DPR's special committee (Pansus) on August 2000 to investigate the involvement of President Wahid in the corruption case of Yanatera Bulog (Buloggate), and in the financial assistance of Sultan Brunei Darrusalam (Bruneigate).

The latest case of Buloggate and Bruneigate, following a series of constitutional processes of Memorandum I (1 February) and Memorandum II (30 April), concluded finally in the plenary session of the DPR on 20 May. It called for the People's Consultative Assembly (MPR), the highest state institution, to hold a Special Session with the main agenda to ask the accountability of President Wahid. The main reason for the Special Session of the MPR was the consideration of the DPR that President Wahid had ignored the DPR's Memorandum I and II.

THE EXPEDITING OF THE SPECIAL SESSION OF MPR

In response to the DPR's calling for the MPR Special Session, the MPR's Board Meeting on 31 May 2001 decided

to hold the special session on 1 August 2001.¹ However, on 9 June 2001 the plenary session of the MPR's Ad Hoc Committee suggested to the MPR's Board if there was unprecedented development threatening the safety and the integrity of the nation and the state caused directly or indirectly by the conducts and/or policies of President Wahid, the MPR Board should immediately call all members of the Assembly to hold the MPR's plenary session for the purpose of the Assembly Special Session.²

Based on the recommendation of the MPR's Ad Hoc Committee Meeting on 9 July 2001, and under the consideration of the MPR Board chaired by Amien Rais that there had been an unprecedented development deteriorating the social and political conditions. This was the result of President Wahid's political maneuvering that threatened the safety of the nation and the integrity of the state,³ and the MPR considered it was necessary to call all members of the Assembly to hold an MPR's plenary session for the purposes of the Assembly Special Session. This process was constitutionally right and democratic

¹*Kompas*, 1 June 2001.

²*Media Indonesia*, 10 July 2001.

³This statement refers to President Wahid's decision that appointed General (Police) Chae-ruddin Ismail as the care-taker of the Chief of the Indonesian Police Force to taking care the daily command of the Police that had been left by General (Police) Bimantoro who was temporary sacked by the President. According to the President, this decision had been consulted and agreed by Akbar Tandjung, the speaker of the DPR. *Kompas*, 21 July 2001.

as the Assembly is the manifestation and beholder of the people's sovereignty.⁴

The response was enormous in which only two out of eleven factions of the MPR, i.e., PKB and PDKB, refused officially to attend and thereby being not responsible for the results of the Assembly plenary session.⁵ This response seemed to be the clear sign that vote of non-confidence over President Wahid would come out soon from the MPR. The Assembly Plenary Session was held on 21 July 2001, and all were very much determined when the nine factions of the MPR unanimously agreed to hold the MPR Special Session.

The Faction of PDI-P had no doubt at all to support the Special Session of the MPR that should immediately review, discuss and take a firm decision over the series of President Wahid's mis-conducts mounting in the appointment of General Chaeruddin Ismail as the caretaker of the Chief of Police Force. For all of his mis-conducts, President Wahid should deliver his accountability speech before the Special Session in 48 hours after the opening of the Session.

The Faction of Partai Golkar viewed that the appointment of General Chaeruddin Ismail as the caretaker of the Police Chief had no other meaning than the dismissal of General Bimantoro Suroyo as the Police Chief. This was clearly violating the Law in which such a replace-

ment should have the agreement of the DPR.

The Faction of TNI/POLRI was rather moderate by arguing that the appointment of General Chaeruddin might resolve the leadership dualism of the Police force on the one hand, but it could have a negative but wide impact over the nation as well as the state.

The Islamic faction of Daulatul Ummah argued that the appointment of the caretaker of the Police Chief had only deteriorated the social and political conditions, and threatened the safety and unity of the nation and the state.

For the faction of PPP, President Wahid's controversial statements and policies such as the President's threat of issuing the Decree of State Emergency and his statements that if he was ousted from the presidency, several regions would separate themselves from the Republic of Indonesia were not acceptable and were improper to be delivered by the President. Such presidential conducts could not be maintained any longer.

A stronger argument presented by the faction of Reformasi indicated that the repeated mis-conducts of President Wahid were just proven that he positioned himself as an authoritarian and he was clearly violating the 1945 Constitution of Indonesia.

The Faction of Kesatuan Kebangsaan Indonesia emphasized that President Wahid had failed to make use of the two months period as he did not try to make better performance but instead he even confused the society and deteriorated the social and political conditions. This was

⁴*Kompas*, 22 July 2001

⁵The Fraction of PKB, and the Fraction of PDKB refused to agree for the expediting of the Special Session as they saw that the appointment of General Chaeruddin was not against the MPR Decree VII/2000. *Kompas*, 22 July 2001.

emphasized by the Faction of Utusan Golongan, arguing that for the last two months the President had formulated policies and statements that made the national condition increasingly worse. Meanwhile, the Faction of PBB pointed out that the MPR had the right to hold a special session based on the call of the DPR.

No factions attending the Plenary Session of the Assembly were against the expediting of the Special Session of the WR. The vote taken afterwards saw that 592 out of 601 members of the Assembly, including the 38 members of the faction of TNI/POLRI, agreed to expedite the Special Session of the MPR to ask for the accountability of President Abdurrahman Wahid. Although the decision to expedite the Special Session had just been confirmed on 21 July 2001, the day before the Speaker of the Assembly, Amien Rais, had already sent a formal letter No. MJ.950/69/2001 to President Wahid to prepare the accountability speech on 23 July 2001, as if everything had already decided before the formal process began.

THE PRESIDENT'S REFUSAL

President Wahid refused to attend the Special Session of the Assembly that would ask for his accountability. In his letter (22 July) to the MPR Board, cc. all chairpersons of the MPR Fractions, President argued that it was only impossible for him to attend the MPR Session which was against the MPR Decree. However, if the Assembly intended to initiate a special session which was not an annual session and general session of the MPR as referred to Article 50 sub-article 3a of the MPR

Regulation, he would be happy to attend on one condition of being given some time to do the necessary preparation.

In President Wahid's view, the Plenary Session of the Assembly held on 21 July was unconstitutional. If the main problem was the appointment of the care taker of the Police Chief, then the process should be proceeded through the memorandum of the DPR. Some arguments seemed to support President Wahid position on this issue. One argument commented that the expediting of the Special Session of the MPR was unconstitutional, un-ethical and not accorded to the spirit of the MPR as the oversight body over the government. Thus, if the MPR really intended to function its control over the government, it should ask for the accountability of the President on the twenty policy items formulated by the 2000 Annual Session of the MPR. Another argument proposed that the current political processes were no longer in line with the laws. An example was the invitation of the speaker of the MPR to hold the Special Session. It should not be the Speaker of the Assembly, but the Assembly itself who invited for such a special session.⁶

Meanwhile, the gathering of around 4000 Ulemas (Kyai) in Tangerang on 22 July 2001, concluded that: (1) the Special Session of the MPR was illegitimate as from the beginning its process had not been rightly fulfilled in terms of the law requirements; (2) the country's leader elected through the democratic processes of general election and general session

⁶Kompas, 22 July 2001.

of the MPR was the only legitimate leader of the country; (3) supporting the President to immediately issue an emergency decree and freeze the MPR and the DPR for the purpose to find out proper solution for the current political deadlock; (4) calling immediately for the country to hold a general election as the main problem of the elite conflict was grounded on the weakness of the constitution; (5) TNI/POLRI should commit and be consistent in pursuing its main role to serve and protect the people; and (6) calling for all members of the society to be able to restrain themselves from destructive and anarchic conducts.⁷

THE DECREE

President Wahid's refusal to attend the Special Meeting, and the rumor that the President would soon issue an emergency decree, had put the relation between the President and the MPR/DPR into a higher political tension. In many observers' view, such a condition had actually closed the door for political compromise between the two parties. It was evidenced in the statement of the Speaker Assembly, Amien Rais, presented after the political parties' meeting in Megawati's Kebagusan House on 22 July afternoon, that "hopefully the country would soon have a new President at least by tomorrow afternoon" (23 July).

Meanwhile, several meetings between President Wahid and some NGOs and small political parties took place in Merdeka Palace on 22 July 2001. The NGOs and small political parties seemed in-

clined to support to President Wahid's plan to issue an emergency decree. The main reason for the social and political grouping in taking such a political position seemed to be their irritation to the "bad" performance of the MPR/DPR especially in dealing with democratization and human right issues.⁸ President Wahid also summoned some of his key ministers, including the Military Commander, General Widodo. There were no other suggestions that the President was really taking into serious consideration of the emergency decree, and therefore he desperately needed the ministers' political support.

It seemed, however, that the most crucial meeting was the President meeting with the Coordinating Minister for Social and Political Affairs, Agum Gumelar, and the Military Commander, General Widodo, as it would determine the effectiveness of the decree that President Wahid was going to issue. In many observers' view, the emergency decree could only be implemented effectively when it got full support from the military and the police force. Without such a support, it would be like "a paper tiger". If this had to happen, no one was sure that this country could really come out peacefully from the current political crisis. It was only fortunate, when revealed afterward, that the military did not give its political support to the presidential emergency decree. The President's warning to immediately replace all the chiefs of staff of the military forces was not strong enough to take the

⁷*Media Indonesia*, 23 July 2001.

⁸See, Hermawan Sulistyono, "Dekrit Moral", *Tempo*, 1 August 2001.

military into his "grasp", as both Coordinating Minister of Social and Political Affairs and the Military Commander kept their positions of not supporting the decree and to bear all the consequences by disobeying President Wahid.⁹

With lack of military support, but considering the supports from the Ulemas, the NGOs and several number of political parties, and the President's evaluation that there had been an un-constitutional leadership change evidenced in the Assembly Speaker's statement, President Wahid finally issued the Presidential Decree on the very early morning of 22 July 2001. The Decree consisted of three points: (1) freezing the MPR/DPR; (2) bringing back the sovereignty to the people, and thereby, forming an electoral assembly to design and conduct a general election in a year; and (3) securing the movement of total reform by freezing the Golkar Party while waiting for the final decision of the Supreme Court. The Decree also ordered the Military and the Police forces to secure the implementation of the Decree. And for that reason, the Military and the Police forces had to take necessary actions to stop the plan to conduct the Special Session of the MPR on 23 July.¹⁰

No later than ten minutes after the Decree was issued, an immediate response came from the Assembly Speaker, Amien Rais. In his statement, Amien Rais stated

⁹The substance of this high tension meeting was disclosed by Coordinating Minister Agum Gumelar in his special interview with Metro TV on 26 July 2001.

¹⁰*Media Indonesia*, 23 July 2001.

that the MPR refused to admit the legality of the Decree as it was in-constitutional, and because of that the Decree should not be obeyed by anyone in this country, and all members of the MPR and the Military and the Police in particular. Amien also called for an immediate special session of the MPR. The Assembly's response to the Decree was confirmed legally by the Supreme Court Decision No. KS 02/3709.A/MPR-RI on 23 July stated that the three points of the Decree had no legal power.¹¹ Such a development showed actually that the impeachment process over President Wahid was taking place and just waiting for a final and formal result.

THE IMPEACHMENT

The Plenary Session of the MPR held on 23 July 2001 concluded that MPR should go forward with the Special Session considering that by issuing the Decree President Wahid was really violating the 1945 Constitution and State Guidelines. This conclusion constituted actually the second expedient of the Special Session. The first was the decision of the plenary session to expedite the special session on the ground of the President decision to appoint the caretaker of the Police Chief. A close observation shows that there had been a clear shift of the reason to having the Special Session of the MPR mainly due to ever changing policies and political conducts of President Wahid. At the end of the day, the ground for the Special Session had been no longer the necessary accountability of President Wa-

¹¹*Kompas Cyber Media*, 23 July 2001.

hid over the Buloggate and Bruneigate case, or the appointment of General Police Chaeruddin Ismail as the caretaker of the Police Chief, but the decision of President Wahid to issue the Emergency Decree.

The fact that the Special Session of the MPR, especially the part of the impeachment process, was taking place smoothly expressed actually the real declining political support of the Assembly for President Wahid. The Vice President Megawati's confirmation for taking over the presidency was a decisive factor that united all parties to be against President Wahid. This was again made easier by the consistent political stand of President Wahid not to attend the Special Session, and the ineffectiveness of the Presidential Decree due to the lack of support from the military and police forces. Moreover, there had also no significant signs of public political challenges towards the Special Sessions in general and the impeachment of President Wahid in particular. A small number of President Wahid's supporters seemed to have not enough power even to disturb the process of the Special Session.

The first day of the Special Session concluded on three points. *First*, the MPR considered the Presidential Decree was illegitimate and had no legal power. *Second*, the refusal of President Wahid to deliver his accountability before the Session and his decision to issue the Decree were clearly violating the Constitution and the Guidelines of the State, and thereby, the MPR dismissed the presidency of President Abdurrahman Wahid. *Third*, the MPR appointed Vice President Megawati Soekarnoputri to take over the presid-

ency replacing President Wahid. The inauguration of Megawati Soekarnoputri as the fifth President of Republic of Indonesia on the following evening marked basically that the unease process of leadership change in Indonesia had been attained without any political upheavals and bloodshed. Whether or not Indonesia would be more stable and able to cope with the multi complex problems afterwards was likely to be another serious problem to watch.

The second day of the special session focused on the issue of electing a vice president, an agenda that was pending until the October Annual Session of the MPR. It was informally agreed by political parties that the Special Session would not touch the issue of electing vice president due to the possibility that if this were put into the agenda session, it would only distract the session's main agenda of impeaching President Wahid. It seemed only reasonable in terms of parties' power struggle to get this strategic government position when they pass over the main business of impeaching the President. Although there were more than two candidates proposed by several fractions and individual members of the MPR, the real fight for the vice presidency seemed to involve only the Golkar Party and the PPP. The arena for the fight was even broadened by the fact that the new elected President Megawati did not put her preference for the vice president.

On the first round of the election process there were five candidates of the vice presidents. Hamzah Haz was nom-

inated by the faction of PPP; Akbar Tanjung by the Faction of Golkar Party; Siswono Yudhohusodo of the Faction of Regional Representatives; General (Ret) Agum Gumelar was proposed by the Faction of PDU; and General (Ret) Susilo Bambang Yudhoyono was supported by the faction of KKI. The first round concluded that only three candidates could proceed to the next round: Hamzah Haz, Akbar Tanjung and Susilo Bambang Yudhoyono. Bambang Yudhoyono had unfortunately been dropped out as he could not get considerable support of the MPR to go for the final round. The final round of the election resulted in the election of Hamzah Haz as the definite Vice President with the total vote of 340, against Akbar Tanjung's vote of 237. In addition, one main factor that made Hamzah Haz elected as the Vice President seemed to be the full support of the faction of PDI-P.

In sum, the Special Session of the MPR had actually passed the critical time of the Indonesian politics peacefully. Although there was minor rejection from several political and social groupings of the society, the conclusion of the session seemed to be cheered by the majority of Indonesian people. It had raised many hopes and expectations that the new leadership could bring about the real change and reform of Indonesia in the near future. However, one could not ignore that although the political processes of the Special Session of the MPR could take place smoothly due to the fact that all major political parties, and the military and the police forces fully backed up the process, these processes

seemed to leave behind several significant constitutional problems. For Indonesia to survive in a longer term, it should be able to manage solving these problems soon before it goes again with the same bitter political experience in the near future.

CONSTITUTIONAL PROBLEMS

Some of the constitutional problems following the forced leadership change in Indonesia may include the following issues. *First*, the process of expediting the special session of the MPR raised an open question as to whether the ever-changing reasons can be accepted as the ground for the special session. Any misconduct done by the President that the DPR considers it as really violating the constitution and the guidelines of the state should be processed through a formal procedure of the implementation of the DPR's right to quest the President which may be followed up by the process of the DPR's memoranda. Such a constitutional procedure seemed to be ignored by the MPR for the case of the President's appointment of the caretaker of the Police Chief and the issuance of the Emergency Decree. The political spirit of the MPR/DPR to impeach President Wahid had been the mainstream of the day that was effective enough to neglect all the constitutional procedures of holding the special session of the MPR.

Second, the political process of the leadership change seemed to have put the military and the police forces into a "political trap" which positioned them in a decisive role in directing and ending the

process. One could argue that such a significant role might be the entry point for the military and the police to re-enter actively in to the day to day political arena. In the constitutional perspective, the main problem is that there seems a dualism of control over the military and the police. On the one hand, the military and the police are under the hierarchic command of the President of Republic Indonesia (MPR Decree VII/MPR/2000: article 3 (2) and article 7 (2)). On the other hand, appointment and/or dismissal of the military commander and/or the police chief by the President must get approval from the DPR. Without definite clauses on how the process of leadership change in both the military and the police should be taken place, those two articles may put the military and the police into a political dilemma of which institution should be obeyed and or followed.

Third, it is no wonder that the supreme court decision undermined the President's emergency decree and had allowed the Special Session of the MPR to impeach President Wahid to proceed smoothly. In a critical political condition, the quick work of the Supreme Court issuing a decision that gave the final say over a conflict of state institution policies might well be accepted, as it ended the conflict. However, there have been actually no state laws or regulations that provide clear authority to the Supreme Court as the state institution to solve such a conflict. In other words, in a normal national condition, the country really needs definite laws and regulations authorizing a state institution to play such a role. This issue needs to be taken into serious con-

sideration by all parties involving in managing the democratic transition in Indonesia as such institutional conflicts might well occur in a higher intensity in the near future. If the country fails to cope with such problems, it could put itself into more complex constitutional problems.

Mega - Hamzah Leadership

The election of Megawati and Hamzah Haz respectively as president and vice president of Indonesia may constitute a new phenomenon of Indonesian politics. Megawati represents the nationalist side, while Hamzah Haz comes from the "strong" political Islam. In 1999 General Election, Hamzah Haz's PPP was one of some Islamic political parties campaigning to refuse a female President. Now, some of those Islamic political groupings still hold such a political stance; some others could accept under the extraordinary condition of the political fact that Megawati was the only choice to replace the failed President K.H. Abdurrahman Wahid. Hamzah Haz seems to take the latter political stance.

This also a constitutional fact that the President and Vice President are not necessarily running mates. They do not have come from the same political party, or political interest. It is constitutionally legitimate if they come from different competing political parties. In such a condition, the President and Vice President may undermine each other. If political self-interests become the main considerations in their conducts, then there will be no guarantee at all for the stability of the government.

And this may result in repeating history of the fall of President Wahid. However, if both of them commit to do all things to serve the country and the nation, and voluntarily sacrifice their political self-interests, this leadership may play a significant factor to move the country and the nation out from the current multidimensional crises.

If formal statements of the elected President Megawati as well as Vice President Haz can be used as indicators for the prospect of this duo, it is rather promising to see that they could potentially make up a strong leadership not only to lead the process of reform but also to solve the complex social, political and economic problems of Indonesia. In her several speeches after elected President, Megawati repeatedly emphasized that she would serve the country, and put the national interest before the party's interest. The same inclination comes from the Vice President, saying in several occasions that he will help and cooperate with the President in leading the country and the nation. If this is the case, it may be reasonably expected that the duo leadership may represent the initial step of a true national reconciliation preventing Indonesia from disintegration.

For the last two years, political conflicts in Indonesia have tended strongly to be very ideological between Islam and non-Islam that occurred not only among the elites but also at the society level. At the same time, regional upheavals because of social-economic injustice arise in many parts of Indonesia. This has brought about social conflicts, which are very primordial in their nature. The In-

donesian society has basically lost its social trust that endangers the unity of the Indonesian nation-state. Therefore, the first priority for the leadership of Mega-Hamzah is to gain public confidence. To do so, the following principles could be taken into consideration.

First is to implement tightly the principle of equal right. Every citizen has the same political opportunity whatever his/her social background. All public offices are open to every citizen. Raising the problem of social identity of any citizen ought to be discouraged. In accordance to this principle, *second* is to accomplish consistently the principle of fair competition in all political practices. This principle will open up the equal chance for every segment of the society and political forces to participate in all political activities. No single segment of the society and political force ought to be marginalized. On the contrary, all segments of the society and political forces have to be stimulated to accept and respect democratic culture and procedures.

Third is to transform the orientation of political grouping from the cultural to public policy. The cultural orientation manifests in the forms of Islam vs. non-Islam, Java vs. outer-Java, or pribumi vs. non-pribumi. This should be changed to the public policy orientation that may take the forms of market economy vs. people's economy, high and progressive taxation vs. low and flat taxation, increasing subsidies vs. decreasing subsidies, and so on. This process of transformation might help increase the opportunity of those who are culturally different to communicate and to

know each other. A public policy, for example, might be supported or challenged by all political groupings whatever their social background.

To focus the duo leadership on their functional roles is the first and prime challenge for both President Megawati and Vice President Haz. Everything has been looking good and prospective in formal statements and conducts of both the leaders. It remains to be seen, however, whether this duo-leadership can work as a team in leading the country through the current multi-complex transition period. The first hundred days of this leadership would be very crucial not only for the government stability but also for the future and fate of Indonesia.

THE "GOTONG ROYONG" CABINET

After a week delay of announcement, President Megawati named her cabinet as "Kabinet Gotong Royong" (Mutual Help Cabinet). The line up of the Cabinet represents various competencies, namely professionals, technocrats, bureaucrats, political fractions and parties (Table). Perhaps this is necessary to heal the wounds caused by the heightened political polarization in the society. The President gave most key cabinet posts, particularly in the economic arena, to professionals and bureaucrats. However, there were enough seats left to placate the political factions and secure her the crucial support of the legislature. While accommodating what she referred to as "today's political reality", Megawati retained some ministers from the last cabinet, or recalled some who were fired by her predecessor

Abdurrahman Wahid, to provide continuity as well as sense of familiarity. Twelve of the ministers had worked with her in her capacity as vice president between October 1999 and July 2001.

This new cabinet gained positive responses from the public. This is not only because of the quality of the individual members of the cabinet, but also due to the process of the formation of it. In spite of advice from all her advisers and many suggestions, if not pressures received from political parties, she was the one that finally decided on the structure and personnel. The formation process that invited pluralistic involvement and the way finally Megawati accommodated many competencies seem to be cheered by the public. One could argue, therefore, that the new cabinet is Megawati's personal cabinet that received all necessary support from political fractions and parties, the market and the public in general.

The next challenge is whether or not the new Cabinet could perform well in terms of coordination and establishing a solid teamwork, and in dealing with the current multi dimensional crisis the Indonesia has been suffering from for the last three years. There is no doubt that Megawati has all qualified personnel in her team. This is not, however, the one and only guarantee for the success performance of the team to cope with all the country's problems. She and the Vice President, might be in the right direction in framing in the focus or program priority of the Cabinet, which consists of the following six points: Maintaining national unity, Continuing the reform and democratization processes, Normalizing the country's

Table

PROFILE OF THE NEW CABINET

Ministry	Minister	Political/Social Affiliation	Professional Background
Coordinating Minister for Political Affairs and Security	Susilo Bambang Yudhoyono		Military
Ministry of Home Affairs	Hari Sabarno	F-TNI/POLRI	Military
Ministry of Foreign Affairs	Hasan Wirayudha		Career Diplomat
Ministry of Defense	Matori Abdul Djilil	PKB-Pembaharuan	Politician
Ministry of Justice	Yusril Ichza Mahendra	PBB	Academician/ Politician
State Ministry for State Administrative Reforms	Faisal Tamin	F-UG; Korpri	Bureaucrat
State Secretary	Bambang Kesowo		Bureaucrat
National Intelligence Agency	M. Hendropriyono	PDI-P	Military
Coordinating Minister for the Economy, Finance, and Industry	Dorodjatun Kuntjoro-jakti		Academician
Ministry of Finance	Budiono		Bureaucrat
Ministry of Industry and Trade	Rini MS. Suwandi	PAN	Business
Ministry of Mines and Energy	Purnomo Yusgiantoro		Academician
Ministry of Agriculture	Bungaran Saragih		Academician
Ministry of Forestry	M. Prakosa	PDI-P	Academician
Ministry of Transportation	Agum Gumelar		Military
Ministry of Maritime and Fishery	Rekhim Dahuri		Bureaucrat
State Ministry for Culture and Tourism	I Gede Ardhika	PDI-P	
State Ministry for Cooperatives, Small and Medium Enterprises	Alimarwan Hanan	PPP	Politician
State Ministry of Investment and State Enterprises Development	Laksamana Sukardi	PDI-P	Business
National Development Planning Agency	Kwik Kian Gie	PDI-P	Business/ Politician
Coordinating Minister for People's Welfare and Poverty Eradication	Jusuf Kalla	Golkar	Business
Ministry of Manpower and Transmigration	Jacob Nuwawea	PDI-P	Politician
Ministry of Health	Achmad Suyudi		Bureaucrat
Ministry of Education	Malik Fadjar	Muhammadiyah	Academician
Ministry of Religious Affairs	Said Agil Munawar	NU	Academician
Ministry of Social Affairs	Bachtiar Chamsyah	PPP	Politician
Ministry of Settlement and Territorial Development	Sunarno		
State Ministry for Environment	Nabiel Makarim		Bureaucrat
State Ministry for Woman Empowerment	Sri Redjeki Sumaryoto	Golkar	Politician
State Ministry for Information and Telecommunication	Syamsul Muarif	Golkar	Politician
State Ministry Research and Technology	Hatta Radjasa	PAN	Business/ Politician
State Ministry for Acceleration of Development of Eastern Indonesia	Manuel Kassiepo		Journalist

economic life, upholding the law, restoring security and peace, and eradicating corruption, collusion and nepotism, restoring Indonesia's international credibility and regaining international confidence, and laying the groundwork for the 2004 general election. It is likely that all these program priorities could only be approached through the working of a solid teamwork of the Cabinet.

Nevertheless, it remains to be seen how the leadership of Megawati, with the help of Vice President Hamzah Haz, would lead the Cabinet to develop a solid teamwork. It is not really an easy work to coordinate, in the words of one spectator, "primadonnas"¹². This might be

¹²Hadi Soesastro, "Market Will Give the Cabinet the Benefit of the Doubt," *Jakarta Post*, 10 August 2001.

the case of the economic team of the Cabinet. While the teams of Politics and Security, and of Social Welfare seem to be more compact and easier to coordinate¹³, the show has just begun with a "good start." The first hundred days of the new government would become a testing period for Megawati's leadership potential. It will also reveal whether her "Mutual Help" Cabinet could serve the country and the nation better than the previous Abdurrahman Wahid government, and get real support of the public until the end term of office in 2004.

¹³Many comments on Megawati's Cabinet show actually mixed responses of observers. See among others. Hadi Soesastro, *ibid*: Jusuf Wanandi, "Hope, fears about Cabinet" *Jakarta Post*, 13 August 2001; Riswanda Imawan. "Make-up of Megawati's team: To please and appease," *Jakarta Post*, 10 August 2001.

Forests as Strategic Assets

Raymond Atje, Linda Christanty,
Tubagus Feridhanusetyawan and Kurnya Roesad

INTRODUCTION

"FORESTS As Strategic Assets" was the title of a conference held at the Centre for Strategic and International Studies (CSIS) in Jakarta, on the 27th of June 2001.¹ The conference brought together various stakeholders to discuss the current state of affairs in the forestry sector. Paper contributions to the conference are now presented in this edition of the *Indonesian Quarterly*. The aim of this paper is to give: (1) an overview over the issues by emphasizing the strategic importance of forests as both economic and ecological assets; (2) an identification of some of the constraints on the reform process in the forestry sector; and, (3) a presentation of some preliminary findings of the research carried out by CSIS on forestry issues.

THE STRATEGIC IMPORTANCE OF FORESTS IN INDONESIA'S DEVELOPMENT

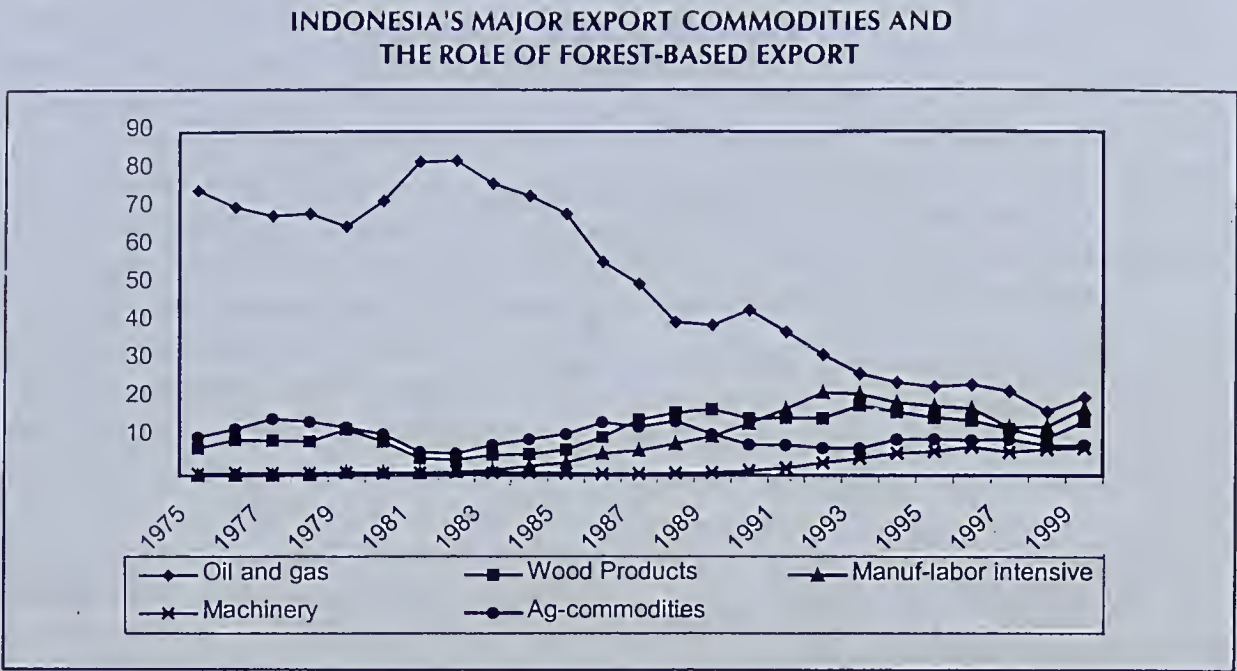
The strategic importance of forests can be purely defined in economic terms: as a resource input to enhance economic

and social development. In this sense, there is no doubt that forests provide a vital resource base for the Indonesian economy. Before the economic crisis, wood-based industries contributed significantly to Indonesia's GDP. In 1997, total output from forest-based activities amounted to US\$20 billion or 10% of GDP (World Bank 2001). Timber products alone – such as, plywood, sawnwood and logs – made up 11% of non-oil/gas exports or 4% of GDP. Figure 1 shows that wood products ranked third among all export commodities during the 1990s. The employment effects are also significant: 800,000 jobs depend on forest-based industries. If one includes the informal sector, then surely the employment figures are considerably higher. Government revenues in the form of royalties were estimated to be more than US\$1.1 billion annually (World Bank 2001).

However, there are signs that the economic function of forests to secure income flows cannot be sustained in the long run. The simple reason is that the fast depletion rate of forest stocks diminishes the regenerative capacity of forests. Indonesia's forests are disappearing at an alarming rate: current estimates suggest that between 1985 and 1997 1.8 million hectares per year have been deforested. At these rates, there is now a

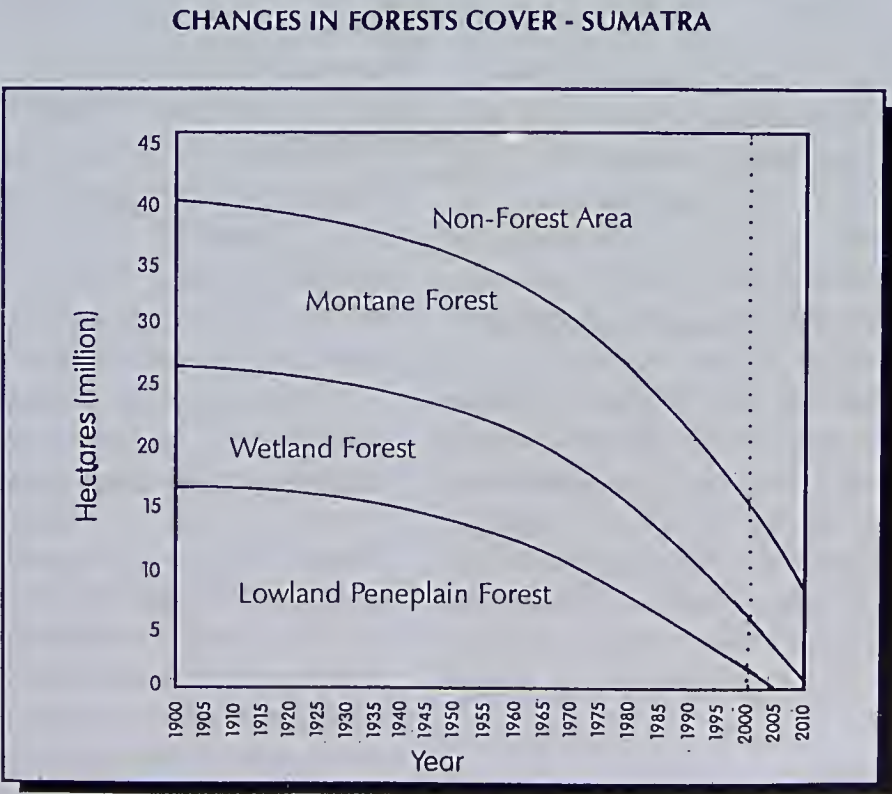
¹The conference and this paper are part of a joint research project on "Economic Crisis, Economic Reforms and the Forestry Sector in Indonesia" between the MacArthur Foundation and the Centre for Strategic and International Studies (CSIS), Jakarta, Indonesia.

Figure 1



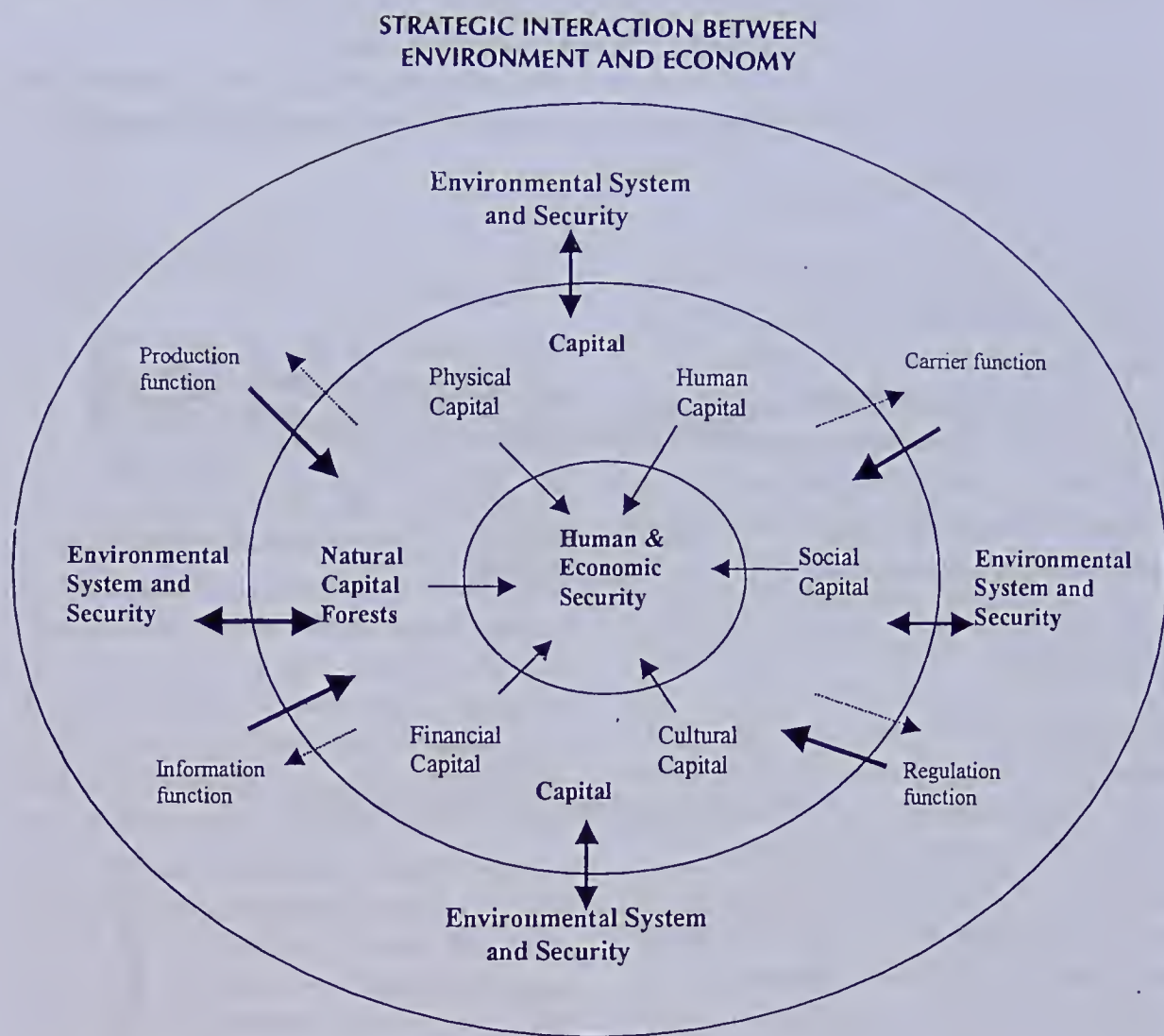
Source: BPS

Figure 2



Source: World Bank (2001)

Figure 3



Source: Extended from Furtado et.al. (2000)

strong possibility that forests will cease to function as a viable resource base in the foreseeable future. For instance, dry lowland forests in Sumatra will cease to exist as economically viable production forests by 2005 (see Figure 2). Overall, the nationwide gross forest area is now estimated to be at 96 million ha (World Bank 2001).²

Future development strategies face the challenge of balancing the needs of the social and economic system to secure resources and the needs of the ecological system to regenerate. Figure 3 shows the linkages and feedback mechanisms between the environment and the economy. The focal point of any development strategy remains human well-being and welfare. Human and economic security depends on access to various forms of capital that are provided by the socio-

²For a further discussion on the extent of forest degradation, see Agus Setyarso's article in this volume.

economic system. Natural capital, such as forest, provides the resource base for human and economic activities. Unsustainable use of forests threatens to evaporate the stock of natural capital, which in turn undermines important ecological functions and services of forests. These include *production functions* such as producing non-timber materials like food, fodder or medicines; *regulatory functions* such as protecting watersheds, water supplies, maintaining soils and regulating the global climate by removing carbon dioxide from the air; *carrier functions* to provide the physical environment and absorbing waste; and *information functions* which encompass the intrinsic, recreational, cultural and aesthetic values people ascribe to forests (Furtado et. al. 2000).

So far, human and economic security could have been maintained by a more or less one-sided resource flow from the environment. But there have not been sufficient investment flows from the economic system to secure the regenerative capacity of the environment, as indicated by the broken arrows in Figure 3. This erodes environmental security, because pollution and degradation levels impair the capability of forests to regulate and ensure a healthy ecosystem.

CRISIS, REFORM AND STAKEHOLDER INTERESTS

The economic crisis in Indonesia since mid-1997 has entailed reforms in the forestry sector. Using a range from market-based approaches to more regulatory solutions, the current policy reforms are aimed to pave the way for a more sustainable forest resource use. The market-based

approach emphasizes getting economic incentives right. For instance, abolishing the ban on log exports, abolishing plywood cartels and establishing eco-labeling are steps into this direction. Regulatory approaches focus on land and property rights issues -- recent efforts seem to favour a community-based management approach (Atje and Christanty 2000).

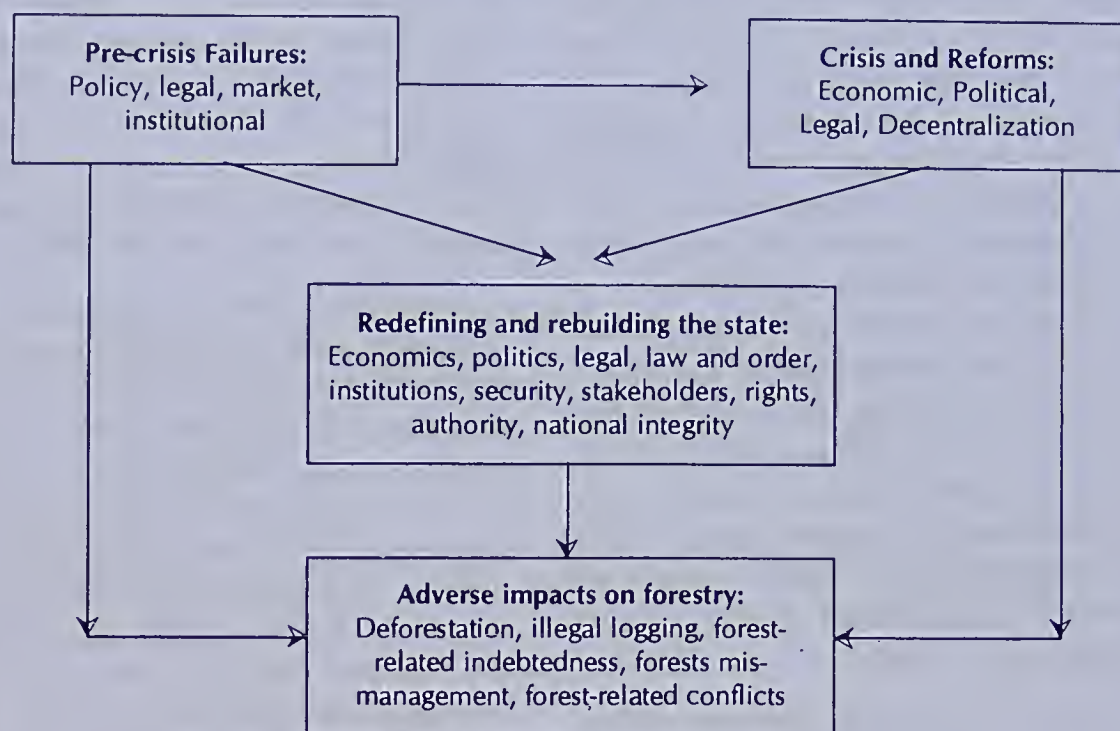
However, reforms in the forestry sector are constrained by several factors. *First*, the multi-dimensional nature of the Indonesian economic crisis does not leave much room for policymakers to prioritize forestry issues. What has started as a monetary crisis in the mid-1997 has now become a crisis of institutions. Pre-crisis failures to establish good governance in the financial and corporate sector made Indonesia vulnerable to the erratic nature of short-term capital flows and negative investor sentiments.

Together with other policy failures in macroeconomic management and the absence of efficient legal structures to address corruption issues, the crisis led to a breakdown of the real sector and subsequently the political structure of the New Order era as well.³ In the end, Indonesia faces the task of redefining and rebuilding the state. But the difficulty of the task lies in trying to push through idealistic democratization and economic reform agendas without having the proper institutions in place. These complications resulting from pre-crisis governance failures and the uncertain reform process have of course adverse impacts on the forestry sec-

³For an analysis of the evolution of the Indonesian crisis and the economic impacts, please see Hill (1999).

Figure 4

THE CRISIS AND THE FORESTRY SECTOR: MORE THAN JUST ECONOMICS



tor (see Figure 4). Any attempt to resolve governance issues in the forestry sector cannot be isolated from the developments in the economy as a whole. Thus, a comprehensive approach to resolve the economic and political crisis is needed first before the intended reforms in the forestry sector can work.

Second, preserving bio-diversity requires a long-term perspective. The problem is that benefits derived from preserving ecological goods and services do not show up in short-term calculations of business interests. In the case of tropical forests, this means that rotation periods after tree cuts and timber harvests follow short-term financial cycles rather than longer natural forest cycles (Brown et. al. 1998). There is abundant evidence that in Indonesia this has been the case for decades. For in-

stance, concessions are usually granted for only twenty years. But this is a disincentive for concession-holders to apply sustainable forest management principles. Short-term management strategies were also encouraged by frequent revocations of concession areas and the prohibition of the transfer of concessions. This only increased uncertainty and prevented concessionaires to keep the value of the land for potential buyers. Policies to enhance timber and tree crop plantation development also were driven by short-term profit expectations (Kartodihardjo and Supriono 2000). The current crisis has also increased the pressure for short-term revenue maximization, as the depreciation of the Rupiah provided an incentive for forest-related export industries to increase production.

Third, different stakeholders have different views on how to use forests. Moreover, applying sustainable forest management principles entails different costs and benefits borne by various groups. If one would ask the question: how much forest do we need? then, different perceptions on what actually constitutes the proper level of sustainability will come to the fore. *Global stakeholders* should prioritize the role of forests to provide the source of biodiversity for the world. The government as a *national stakeholder* has to balance its task to maximize the economic and social benefits of forest exploitation with its responsibility to ensure national minimum standards of environmental protection/sustainable forest management. *Domestic provincial and district governments* are now more interested in generating revenues for their constituencies. *Local communities* at the grassroots level want to secure their access to forest resources as their base for their livelihood. Lastly, *business interests* want to have policies and laws in place, which provides a secure environment for their investments.

The slow implementation of reforms in the forestry sector is to a significant extent the result of divergent stakeholder interests. For instance, the preservation of forest areas as protected nature reserves and policies to make the timber processing more efficient are on top of the agenda of international lenders. But government and business interests may differ on this. Past policies have ensured that domestic timber industries expanded rapidly. This was achieved by restrictions

on log exports and tax concessions to build up processing industries. Effectively logs were subsidized. The resulting overcapacity of plywood mills increased the industries' demand for timber and also induced illegal logging (Brown 1999). Timber harvests vastly exceed sustainable levels. Agreements between the IMF and the government include the abolishing of export taxes on logs. But the government still requires permit letters for log exporters, which in effect constitutes a non-tariff trade barrier (Brown 1999). This still shows the reluctance of the government to prioritize efficient forest resource use.

On the other hand, the government tries to accommodate local stakeholders' interests. In the past, the state bureaucracy colluded with various conglomerates to generate revenues in the forestry sector at the expense of local communities. Recent reform efforts aim to rectify past injustices by reducing the size of concession areas and requiring firms seeking extension of their concessions to transfer 20% or more of their shares to cooperatives (Brown 1999). While this may seem desirable from an equity perspective, it may undermine efficient sustainable resource utilization and may also deter investment.

Fourth, the decentralization process may compound the divergent interests between the stakeholders. One key question is whether the devolution of power from the centre to the regions will undermine environmental protection goals. Current interpretation of the core laws – Law 22/1999, Law 25/1999 and Government

Regulation 25/2000 – suggests that districts cannot enact legislate environmental standards that are below national standards. However, given poor law enforcement, lack of funding for environmental services and incomplete national standards, districts may be inclined not to adhere to sustainable forest management (SFM) principles. Two observations support this thesis. First, there is the question whether there is in fact a real a transfer of power in forest management to the regions. The Ministry of Forestry still exerts two main important control functions over the regions: (1) determination of forest areas and changes in status and functions; and, (2) conservation and protected area management (World Bank 2001). Moreover, a policy initiative by the Ministry of Forestry – *Perumisasi* – seeks to place the existing forest concession areas under state control. These steps have compounded fears about Jakarta's willingness to enter centre-regions relations on a more equal basis.

Secondly, revenue sharing is arguably the most important issue governing centre-region relations. Natural resources-based balance revenues are collected by the centre in form of taxes (e.g., on property and land) and shares in revenues generated by forestry, mining, fisheries and the Reforestation Fund. These are then distributed to the regions according to an agreed formula. But resource-based balance funds may create incentives for districts to increase revenues from exploitation of local resources (World Bank 2001). Bupatis may also feel pressed by local constituencies to do so. For instance, the issuance of clear felling permits (IPKs) by various district governments to boost

local revenues increases illegal logging in protected forest areas (Christanty et. al, 2001).

POLICY ISSUES IN THE FORESTRY SECTOR: A CSIS RESEARCH PERSPECTIVE

Ongoing CSIS research on forestry issues prioritize the relationship between the economic crisis, economic reforms and their impacts on the forestry sector. Specifically, the research consists of the following components:

- ❑ *Macroeconomic and microeconomic perspectives:* the focus here is to assess the impact of macroeconomic reforms and stabilisation on the forestry sector; provide a quantitative assessment of policy reforms on forestry and forest-related industries by using a global CGE approach; and provide an assessment on the competitiveness of wood and wood product industries.
- ❑ *Policy and regulatory issues:* several working papers deal with the institutional and regulatory developments in the forestry sector. Key issues are the assessment of the impacts of the decentralisation process on sustainable forestry management; the linkages between property rights regimes, economic incentives and sustainable forestry management; and the linkages between forestry and agricultural policies.
- ❑ *Field surveys:* research to assess the impacts on the ground include and assessment of the impacts of the crisis on small farmers and natural forest cover in the outer islands; evaluating the regional and local institutional capacity to cope with a decentralised

forestry management in Riau and Kalimantan; and a forthcoming assessment of the impact of concessionaires' policies on the environment and local communities in selected areas.

PRELIMINARY FINDINGS

The CGE analysis provides an assessment of the impact of trade liberalization scenarios on welfare levels in the Indonesian economy. In general, liberalization leads to large welfare gains for Indonesia. Policies that lead to a broader participation of a country in trade liberalization, progressive tariff reductions and wider sectoral coverage would increase those welfare gains. Trade liberalization also leads to efficient resource allocation, which in turn affects the patterns of production. The largest output increases are found in the manufacturing sector. Forestry – related sectors are also expected to increase significantly: domestic production would increase by 5.7% or around 144 million US\$ (in 1995 •GDP terms). Lumber, pulp and paper industries increase the production by 7.4% and 4.6% respectively. Changes in production can be mainly traced back to changes in demand (Feridhanusetyawan 2000).

Trade liberalization is expected to increase Indonesia's exports substantially in all sectors, especially in the agricultural, mining and forest-related sectors. However, in some liberalization schemes like AFTA, the rise of international trade results mainly from trade diversion rather than trade creation. Exports of forestry-related products also increase by 26.3% or around 160 US\$ for pulp and paper sectors, while lumber industries manage

to raise exports by 13%. Exports of forest-related products are also a result of higher world demand. However, overall imports and imports of forest products would also increase substantially by more than 50% (Feridhanusetyawan 2000).

Research findings on the policy and regulatory developments in the forestry sector identified six main issues. First, *effective concession management* depends on the following factors: the completion of and the availability of forest resources inventory and mapping; a transparent concession allocation process; the determination of the optimal concession size based on both economic and ecological considerations; and a strengthening of monitoring, control and enforcement capacities of authorities. Second, *liberalization of domestic timber related industries is needed to reduce the industries' inefficiencies*. Third, the *reforestation fund scheme* does not encourage concessionaires to undertake reforestation activities, because contributions to the fund can be considered simply as sunk costs. Fourth, *sustainable forest management (SFM)* requires the application of eco-labeling as the main instrument to ensure compliance with ITTO guidelines. However, efforts to establish eco-labeling are still hampered by the lack of awareness and knowledge among stakeholders on SFM principles. Fifth, *effective protection and nature conservation* requires immediate steps to increase monitoring and enforcement capacities of forest authorities. Sixth, equity in the distribution of benefits in the forestry demands increased attention to *community-based forestry management lands*. This requires a clarification of property rights regimes

to clarify land conflicts. The key question here is whether different ownership structures can co-exist in managing forest areas (Atje and Christanty 2000).

Preliminary findings from a survey among policy makers in Riau and East Kalimantan on the impacts of decentralization on regional forest management highlight several issues (Christanty et. al. 2001). *First*, there is a clear conflict between the central and district governments on the issue of small-scale concessions. Under Government Regulation No. 6/1999 and the Minister of Forestry and Estate's Decree No. 310/1999 forest product utilization permits (*ijin hak pengusahaan hasil hutan, IHPHH*) for local communities. The holder of a permit has an exclusive right to harvest timber and non-timber products from a small-scale concession area (up to one hundred hectares). This resulted in the issuance of hundreds of permits, which encouraged rapid deforestation in some regencies in Kalimantan ever since. Realizing the destructive consequences of IHPHH, the Minister of Forestry issued a new decree (Decree No. 084/2000) canceling the implementation of the previous Decree (No. 310/1999), and prohibiting the regents (*Bupati*) from issuing new IHPHH. Yet, some of them have refused to comply with the new decree, arguing that IHPHH were meant to improve the welfare of the local communities who were marginalized during the former regime. Moreover, IHPHHs are frequently issued without proper planning: their area often overlaps with a legitimate concession area (HPH), which results in a conflict of interests and disruption of the sustainable cutting cycle. This also raises questions regarding the

validity of current concession permits issued by the central government (Christanty et.al. 2001).

Second, there are conflicting policies adopted by provinces and districts to manage forest areas that cover several districts. Although regulations state that provinces have the responsibility, frequently local governments have different perceptions. For example, part of Bukit Tigapuluh, which is located in West Sumatra is classified as production forest area, while the part which is located in Riau is declared as a protection forest. It is very difficult to maintain the sustainability of the protection forest, as illegal loggers and forest intruders move in from the West Sumatra site (Christanty et. al. 2001).

Third, distribution of benefits or positive externalities between districts is also a serious unresolved policy issue. A district located upstream and only covers protected forest areas may not benefit financially compared to a downstream district receiving financial benefit from the exploitation of its production forest areas. As the downstream district receives the ecological benefit from the upstream forest conservation, there should be a mechanism on how the downstream district should compensate or share the financial benefit with the upstream district (Christanty et. al. 2001).

Fourth, land conflicts and multiple claims on land compensation are increasingly testing the management capabilities of authorities. Some of the concession areas have been claimed by local communities as their *adat*/customary land. As there is no clear mechanism for conflict resolution, the compensation is usu-

ally paid based on consensus between the two parties. Yet, it often results in multiple claims, as there are more than one group claiming compensation for the same area. There is a need to regulate land claim and set up a standard for compensation (Christanty et. al. 2001).

Overall, recommendations point out a clear need to formulate coherent forest policies which set clear divisions of tasks between central, provincial and district governments. This, in turn, requires institutional and technical capacity building in the regions. Moreover, policies need to be coherent and compatible with SFM principles. Institutional capacities to resolve land tenure and property rights conflicts are also needed (Christanty et. al. 2001).

Field research on the impact of the economic crisis on small farmers and natural forest cover in the outer islands was carried out by a CIFOR team. Key findings include the observation that the majority of households interviewed were worse off during the crisis, in spite of the fact that three-quarters of study households had export commodity income. Clearing of forestland increased slightly in the first year of the crisis and greatly in the second year of the crisis. Land was cleared increasingly for export tree crops in sedentary systems and less for food crops in swidden cultivation systems. Lastly, those who perceived themselves as worse or better off were more likely to have cleared land during the crisis, and to have cleared a larger area of land than those who felt that their

wellbeing did no change significantly. The authors of the study argue that farmers need assistance in diversifying their income sources to help protect them against possible future economic shocks. Moreover, greater awareness of how macroeconomic instability can lead to undesirable environmental consequences is needed (Sunderlin, Resosudarmo, Rianto and Angelsen 2000).

OUTLOOK

The above discussion has only highlighted the complex nature of the existing problems in the forestry sector. What is needed is a National Forestry Action Plan arising from a constant dialogue among all stakeholders. Currently, the Ministry of Forestry has made commitments to undertake reforms to improve forest management. These commitments are based on 12 priority points, which were developed during the two CGI meetings last year.⁴ This special edition of the *Indonesian Quarterly* forms an attempt to summarize the debate from the viewpoint of several stakeholders. These include international donors, the government, regional policy-makers as well as business and research institutions. Specifically, the role of international donors in assisting the reforms and current stakeholders' views on the decentralization process are at the centre of attention. It is hoped that the papers in this volume will provide a useful input to the ongoing reform process in the forestry sector.

⁴For a list of the 12 priority points, see Hutabarat's paper in this journal.

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The Implementation of Decentralization in the Forestry Sector within the Framework of Sustainable Forest Management in the District of Kutai Kertanegara

H. Syaukani H.R.

INTRODUCTION

Background

REGIONAL autonomy, as regulated in the Act no. 22/1999 and 25/1999, is a commitment of the Indonesian nation to improve the governmental system towards fair, equal, and sustainable development. It gives to all autonomous regions the authority to conduct their own regulations, in accordance to the mandate given by the people, within the framework of a united Republic of Indonesia.

The policy to implement regional autonomy in Indonesia dated back to the history of governmental system in Indonesia. After 55 years of independence, Indonesia is still considered a new beginner, when compared to government systems in other countries. The lack of experience with regulations and state structure, and the unstable conditions caused by post-independence politics has created instability in statehood and democracy.

The government's failure to achieve the trilogy of development lies in its failure to secure an equal income distribution.

This is reflected in visible disparity. Moreover, in regions far away from the central government, development remained far below expectations. The same developments can be seen in wood-based industries: in the centre, where material processing sites are located close to financial and money flows, multiplier effects are greater. However, regions and districts which produce wood products material, are located far away from industrial sites and centers of economic activities. Therefore, the flow of money and regional finance is very small.

Several pre-conditions are needed for the transfer of authority in the framework of regional autonomy. For example, the capacity and capability of available human resources have to be strengthened. The ability to quickly adapt to the challenges of decentralization need to be fostered in the course of preparing the regional development tasks.

The forestry and plantation sector in East Kalimantan are the biggest employers absorbing 34% of the total labor force, followed by the business sector, services, mining, and transportation absorbing 18%, 17%, 5%, and 4% respectively.

Based on the latest data, forest resources in East Kalimantan, especially in the district of Kutai Kertanegara, are in a critical condition both in terms of quality and quantity. This is a result of a forestry management system, which is still focused on maximizing short-term outcomes. Other factors, such as natural disasters like forest fires also contribute to the damaging of the forests.

Objectives

Heading towards sustainable forest management (SFM) in the district of Kutai during the era of regional autonomy entails several main objectives:

- ❑ To improve the capability of regional human resources in managing the forests in the future.
- ❑ To coordinate and restructure regional revenues derived from forest products to provide stable and sustainable income in the future.
- ❑ Regional commitment towards the management of conservation of forests, recognizing the aspect of regional security to support a favourable investment climate in the forestry sector.
- ❑ To support a forest management system that pays attention to economic, social and ecological aspects.
- ❑ To improve the institutional and communities' ability in the future, aiming to recover forest resources that have been degraded by the previous management and forest fires.

GENERAL DESCRIPTION OF THE DISTRICT OF KUTAI

Potential of Forest Resources

The district of Kutai, with an area of 2,611,690 hectares plus territorial waters

of $\pm 285,605$ hectares, is located at a large river, Sungai Mahakam. Its situation gives Kutai high accessibility, through water and land. That accessibility is a valuable asset for the future center of economic growth in Kutai.

Based on the calculations derived from the Provincial Spatial Planning Map (RTRWP), forest area in the district of Kutai Kertanegara is about $\pm 1,619$ million hectares, consisting of 1,196 million hectares Forest Cultivation Area (KBK) and 423,000 Non-forest Cultivation Area (KBNK). Most of the Production Forests is managed by 9 HPH companies with average production of 1.3 million m² per year. Besides wood, non-wood forest products are also produced, like rattan, resin, and there is also potential for nature tourism.

Table 1

LAND USAGE IN THE DISTRICT OF KUTAI KERTANEGARA

No.	Description	Size (ha)
1.	Forest Cultivation Area	1,196,070.8
	a. HPH	876,509.0
	b. HTI	319,561.0
2.	Protection Forests and Conservation	423,168.0
	Total of 1 + 2	1,619,238.8
3.	Non-forest Cultivation Area	970,420.6
	a. Plantation	120,219.6
	b. Transmigration	94,150.8
	c. Other usage of Land	737,346.0
	d. Lakes	18,704.65
	Total of 1 + 2 + 3	2,589,660.3

Table 2

**SIZE OF LAND AND FOREST AREA BURNED IN THE DISTRICT
OF KUTAI KERTANEGARA**

No. Type of Fire	Land Use						
	HPH	HTI	Reserved Forest	Plant-ation	Transmi-gration	Other use	Total
1. Low degree fire (damage of 25-50%)	133,936.0	48,637.5	15,760.0	14,081.1	75,515.1	55,764.5	275,694.1
2. Medium degree fire (damage of 50-80%)	158,322.2	167,566.1	95,078.1	48,578.7	56,618.4	185,161.1	711,324.6
3. High degree fire, >80% of biomass saved	75,969.0	22,930.0	2,034.1	8,863.5	28,345.3	95,950.5	234,092.3
4. High degree fire, >80% of biomass burned	69,621.6	93,227.9	13,740.4	27,644.4	41,376.7	94,836.1	340,447.0
Total	437,848.7	332,361.4	126,621.5	99,167.7	133,855.5	413,712.1	1,561,557.9
Total of forest burned	896,822.7						
Total of plantation and other use lands burned				664,735.3			

Table 3

**RECALCULATION OF FOREST AREA AFTER THE 1998 FOREST FIRE
IN THE DISTRICT OF KUTAI KERTANEGARA**

No.	Description	Classification		
		Burned	Not Burned	Total
1.	Forest Cultivation Area			
	a. HPH	437,848.7	508,854.8	946,703.5
	b. HTI	332,361.4	25,005.8	357,367.2
2.	Protection Forests	126,612.5	291,600.6	418,213.1
	Total of 1 + 2	896,822.6	825,461.2	1,722,283.8
3.	Non-forest Cultivation Area			
	a. Plantation	99,167.7	7,078.5	106,246.2
	b. Transmigration	133,855.5	831.0	134,686.5
	c. Other usage of Land	431,712.1	203,586.3	635,280.4
	d. Lakes	0	24,622.8	24,622.8
	Total of no. 3	664,735.3	236,100.6	900,835.9
	Total of 1 + 2 + 3	1,561,557.9	1,061,561.8	2,623,119.7

The type of forest in Kutai is lowland and upland tropical rain forests, dominated by Dipterocarpaceae type of tree with average standing stock potential (primary and ex-cut) of 30 m³ per hectare. This can be explained by the data of land usage in Kutai based on land use calculations (see Table 1).

The 1997/1998 forest fire has caused massive change in forest vegetation in Kutai Kertanegara. The size of burnt area is $\pm 1,158,652$ ha, consisting of 801,669 ha of production forest area inside HPH/HTI area, and 151,160 ha inside preserved forests (see Table 2-3).

Economic - Ecological - Social Prospects

Forests in the context of sustainable development provide economic, ecological and social benefits.

Economic Benefit. There is a double effect of forest management. Forests are capable to provide long-term employment opportunities. The local government will get the benefits derived from taxes and royalties imposed on forest products, contributing to monetary flows within the district.

Ecological Benefit. The benefit may be obtained in the form of intangible value of the forest, for example water structure, climate, erosion prevention, conservation of fertile soil, etc. However, the intangible value is reduced by the loss of soil fertility, erosion, landslide and flood or lack of water resources. This has financial implications influencing income available for regional development.

Social Benefit. A fair exploitation of forest resources will reduce social conflicts, and this benefit should be felt directly

by the community living surrounding the forests. This will strengthen the ability to protect cultural, traditional and other esthetical values of forest sites. Sustainable forest management should be focused on achieving a balance of those three benefits.

Attention should also be paid to the current condition of forest potentials that have been degraded. The current situation entails the danger that in the near future the forestry sector will not be able to provide economic contributions to the regional development.

Nevertheless, there are factors that support the prospect of natural forests recovery ability in East Kalimantan: for instance, the level of growth productivity is considered to be the best in the world. One can expect that policies adhering to the requirements of sustainable forest management will result in greater economic benefits.

THE DEVELOPMENT OF FORESTRY DECENTRALIZATION POLICIES

Generally, forestry decentralization policies can be classified in several phases:

Early Phase of Regional Autonomy (1995 - 1997)

Based on the Governmental Regulation Act. 08/1995, dated 21 April 1995, governmental affairs in forestry were handed to a sample of 26 selected districts. The district of Kutai belonged to a sample of chosen districts in the implementation of regional autonomy. Some of the affairs handed to the regional department were:

- a. Reforestation and Land Conservation Affairs;
- b. Natural Silk Industry Affairs;

- c. Honey Farms Affairs;
- d. Community-Owned Forests Affairs;
- e. Forestry Information Affairs.

Generally, the above mentioned affairs are of non-strategic nature in the sense that they cannot be considered as vital sources of capital and income for the regional governments. They are not profitable enough to sustain regional finance and funds for environmental management.

In order to implement the Government Regulation Act. 08/1995, the District of Kutai's Forestry Office was established through the Regional Regulation of the District of Kutai No. 23/1995. This, in turn, was based on the Internal Affairs Minister Decree No. 44/1995, which was formed with a minimum pattern of organizational structure. Its main functions include the sale and distribution of forests products, forest reservation, reforestation and land and water conservation, natural silk industry, honey farms, communal and property forests, forestry information and assistance tasks given by the Government or Provincial Governments.

One obstacle was the Instruction of the Minister of Internal Affairs No. 5/1995, dated 13 March 1995, on the elimination of Provincial Forestry Office in the districts of regional autonomy sample program, where it is not stated that the certain bureaucratic functions (known as 3 P) are to be handed to the government of the District of Kutai Kertanegara.

Other sub-districts also did not receive certain functions. These include 8 sub-districts (Muara Badak, Sanga-sanga, Muara Jawa, Anggana, Samboja, part of Loa Janan, Loa Kulu, and Tenggarong Seberang) under the administrative area of the Mahakam Ilir Forestry Office.

The Head of District of Kutai's Letter in November 2000 to the Governor of East Kalimantan suggested that the Forestry Administration regions in those 8 sub-districts are handed to the Forestry Administration of the District of Kutai. However, no resolutions have been achieved so far.

Transitional Phase, at the End of New Order towards the era of reform (1998 - 2000)

In this transition phase, a change of the forestry management system is needed, because the old system has been centralised, monopolistic, nepotistic and worked particularly to the benefits of conglomerates. This has created a gap, fostered ecological degradation, neglected the aspect of fairness and principles of people's economy, and did not exploit the forests resources for the maximum benefit of the people. Hence, the national condition urges towards a quick transfer of authority to the regions (decentralization), especially to accommodate the demands for democracy and justice, so that the local people can participate in managing the forests resources.

Legally, those demands were realized in the issuance of Government Regulation No. 62/1998 which stipulates the transfer of some functions in forestry management to district governments. This was followed by the establishment of Governmental Regulation No. 06/1999 about the Rights for Forestry Management (HPH) and Rights for Forest Products Management (HPHH). In effect, heads of sub-districts have the authority to give out HPHH permits covering not more than 1000 ha to the people, cooperatives, state enterprises (BUMN), regional state enterprises (BUMD), and

private companies. It was then followed by the Minister of Forestry's Decree No. 310/Kpts-II/1999 about the system for HPHH permits, which then was cancelled and replaced by the Forestry Minister Decree No. 084/Kpts-II/2000 dated 13 April 2000, and was then again replaced by the Forestry Minister Decree No. 051/Kpts-II/2001 about the Standardization and Criteria of the Permit for Wooden Forests Products Exploitation, and the Permit for Wooden Forests Products Collection (IUPHHK and IPHKK) on Production Forests.

In addition, Act No. 41/1999, Act No. 22 and 25/1999 about forestry, regional government and the balance of central and regional finance were issued.

These acts were then followed by the Governmental Regulations No. 25/2000 on the Governmental and Provincial Authority as autonomous regions. This defined the authority of the district government and subsequently became the basis for the establishment of regional regulations in the districts.

January 2001 marks the beginning of extensive, tangible and responsible implementation of regional autonomy.

In the early period of the implementation of regional autonomy, the forestry sector faces many obstacles. One main problem is that already formulated plans for regional regulations have to be adjusted with norms of standardization and criteria of sustainable forestry management.

The Regional Regulations Plan (RAPER-DA) of the District Government of Kutai, in responding to the implementation of regional autonomy, was much earlier prepared by the Governmental Officials of the District of Kutai. But national guidelines issued by the central government

about standardization and criteria of various forest/forest products management, arrangement, and exploitation systems were not published until the end of year 2000. Facing the start of the decentralization process by 1 January 2001, already formulated regional regulations had to be adjusted to the necessary national standards and norms.

This obstacle to implementing decentralization was caused by the lack of efforts by the Ministry of Forestry and its provincial offices to speed up the circulation of information and to socialize products of regulations and policies from the central government to the regions. However, the Ministry of Forestry seems not ready to move to a new paradigm and to implement a decentralized system in the forestry sector.

ALTERNATIVES IN FORESTRY MANAGEMENT PATTERNS

Pre-conditions

From the above data, it can be concluded that the current condition of forest resources in Kutai has been degrading both in terms of quality and quantity. This was caused by the previous forestry management practices which could not safeguard the realization of SFM principles. Other factors include the long dry season (El Nino) in 1997 until 1999, causing fires that burned more than 60% of the forests and the destruction of various biological resources and non-wood forest products.

To aim for sustainable forest management, the following pre-conditions are necessary:

1. Forestry sector has contributed to creating employment opportunities, and in developing the regional economy with a large multiplier effect.

Table 4

ALTERNATIVES IN FORESTRY MANAGEMENT SYSTEM

No.	Management System	Forest Condition			
		Production Forest		Protection Forest	
		Burned	Not Burned	Burned	Not Burned
1.	Conservation management unit			Joint conservation and social benefits (activities: rehabilitation, reforestation)	Conservation
2.	HPH/HTI (in accordance with SFM): - BUMD - BUMN - Private	Focus of activity: Improvement of management system, in accordance with the standard of Sustainable Forest Management Eco-label Certificate, esp. in activities of: - Rehabilitation - Reforestation - Revision of RKPH	Focus of activity: Improvement of management system, in accordance with the standard of Sustainable Forest Management Eco-label Certificate.		
3.	Joint Forest Improvement (BUMD + HKM) (BUMN + HKM) (HKM + Private) (Multistake Holder)	Focus of activity: Improvement of management system, in accordance with the standard of Sustainable Forest Management Eco-label Certificate, where each stakeholder has balanced role, in activities of: - Rehabilitation - Revision of RKPH	Focus of activity: - Improvement of management system, in accordance with the standard of Sustainable Forest Management Eco-label Certificate, where each stakeholder has balanced role. - Mechanism of the resolution of land and forest resources use conflicts.		
4.	Community Based Forest Management	Focus of activity: - Rehabilitation - Change of plan in forest exploitation - Non-wood forest products	Focus of activity: - Implementation of SFM standards in forestry management patterns - Mechanism of land use and exploitation conflicts resolution		

- SFM : Sustainable Forest Management

- HKM : *Hutan Kemasyarakatan* (Communal Forests)

- RKPH : *Rencana Karya Pengusahaan Hutan* (Plans of Forestry Management)

2. In the next phases, the demand for wood, either for local, national, or international, will continue to increase.
3. The livelihoods of communities depend highly on the forest and its products (sub-system).
4. Forests not only provide the public domain to preserve healthy air condition, water and microclimate, but also other forests resources (non-wood forest products). These have not been utilized optimally yet.
5. Recent natural disasters indicate that forest utilization was not balanced with the carrying capacity of forests.
6. 32 years of centralized forest management system, have resulted in income gaps and social conflicts. Managing natural resources requires a wise and professional approach.
7. Forest resources have multi-function, multi-shape and multi-commodity characteristics. In the future, forestry management should not only be wood production-oriented, also be oriented to potentials of biological resources, environmental services and the optimization of non-wood forest products management for the welfare of the people.

Forestry Management Patterns

From the pre-conditions mentioned above, alternatives for forestry management activities that can be executed are as follows (see Table 4).

CONCLUSION

Forest decentralization policies are basically still in an early phase of the im-

plementation of regional autonomy, and the future implementations should proceed carefully, paying attention to the development of human resources and institutions in the regions. Legal products that serve as a basis of management should thoroughly consider the social, economic and ecological aspects on an equal basis.

The degradation of potential and quality of forestry was caused by centralized management that was not in accordance with the principles of sustainability. So it has to be improved using the standards of Sustainable Forest Management. Close attention should be paid to problems of protection, forest and land rehabilitation in terms of planning, community empowerment, continuity in funding.

If examined thoroughly, the data of forest damage in the District of Kutai Kertanegara indicates a decreasing income from royalty and forestry sector in the future. But if reforestation and forest rehabilitation proceed as planned, and with sufficient supporting factors of funding and work performance, the climate in East Kalimantan itself is very supportive to the acceleration of forest resources recovery.

Tenure problems and conflicts between the local communities and HPH/HTI permit holder should be handled wisely and professionally to secure investment and business confidence. Participatory planning and community empowerment in forest development should also be motivated. There is a need for a change in paradigms. There should be a view that strengthening the community is a social investment, and not a social cost. Social investments has in many cases contributed to the sustainability of forest resource management.

Forestry Developments with Regard to Decentralization

Silver Hutabarat

INTRODUCTION

WE LIVE in a world that is finite, both at the global level and at the national level. Mankind influences fundamental processes of the global ecological cycles. The forests play an important role in many of these cycles and they harbour a substantial part of the world's biological diversity. The utilization of forests has been an important part of our developmental processes. In Europe and North America substantial parts of the original forests have been cleared due to the agricultural and industrial expansion within the last 300 to 400 years.

The importance of forests to the people is changing, as history and culture change. In the industrial countries, the need for wood for construction and fuel is decreasing; however, there is an increase in the need for recreation, fresh air and an escape from the stress of daily modern life that can be provided by forests. Forests also function as carbon sinks; therefore, reforestation activities have a significant role in minimizing the increase of the greenhouse effect.

The importance of forests to the international community has been shown in the UN Conference on Environment and Development at Rio de Janeiro, Brazil, in 1992. At that conference, forests became the main theme. Forests are becoming an international concern, and all countries have to manage their forests sustainably.

To show its commitment to the international community, at the Session of the CGI (Consultative Group on Indonesia) held in Jakarta on 1-2 February 2000, Indonesia, through the Minister of Forestry has made commitments to improve forest management. The commitments spelled out eight important points as priorities in the reform of policy on forest resource management and the activities of forest-based industries, as follows:

1. To invite the cooperation and coordination of other ministries to impose strong measures against illegal loggers, especially those operating within national park, and closure of illegal sawmills;
2. To speed up forest resource assessment as a basis of National Forest Program (NFP) formulation;

3. To evaluate the policy in conversion forest and put a moratorium on all natural forest conversion until NFP is agreed;
4. To downsize and restructure wood based industry to balance between supply and demand of raw material and most importantly to increase competitiveness of Indonesia wood based industry;
5. To close heavily-indebted wood industries under control of IBRA (Indonesia Bank Restructuring Agency) and link proposed debt write-off to capacity reduction;
6. To connect reforestation with the existing forest industries and those under construction;
7. To recalculate the real value of timber;
8. To use the decentralization processes as a tool to enhance sustainable forest management.

The commitments are based on a concern about the degradation of forest resources in which the rate of deforestation reached 1.6 million hectares per year over the past decade due to excessive forest exploitation, conversion of natural forest for various purposes, forest plundering, and forest fires. Following the CGI meeting in Tokyo, in October 2000 four more commitments were added and subsequently an Action Plan was developed to begin addressing these problems within a comprehensive framework. The additional four commitments are:

9. To address the problem of recurrent forest fires;
10. To design and implement a consulted National Forests Program (NFP);

11. To address the problem of land tenure;
12. To review and improve the forest management system.

The first eight commitments have been discussed through a series of workshops attended by a wide range of stakeholders and interest groups, including government officials, the private sector, NGOs, academics, donor representatives and forest-fringe community representatives. Five workshops were held from 8-9 August 2000 (Workshop I: Moratorium on Natural Forest Conversion and Closure of Heavily Indebted Wood Industries) until 3-4 October 2000 (Workshop V: Consolidation of Action Plans and Policies). The issues raised in the course of dialogue and discussion at these events provided a valuable input to the policy debate and subsequent efforts to begin addressing these commitments.

DECENTRALIZATION OF FORESTRY

There is a worldwide trend toward decentralization. This trend is a result of a political reaction to the failures of centralized models of administration and economic management, whether Leninist or Keynesian. A centralized government could be better able to internalize externalities, take into account economies of scale in the provision of public goods, and coordinate fiscal policy.

However, a centralized authority does have a limited ability to collect information and monitor agents. Local governments are generally better informed, for example on the revenue generating capacity of local enterprises, or on the needs of local people (Dethier 2000).

Decentralization can be defined as the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations or the private sector (World Bank Institute 1999). Decentralization can be divided into four categories, namely political decentralization, fiscal decentralization, economic or market decentralization and administrative decentralization:

- ❑ Political decentralization focuses on giving citizens and their elected representatives more power in public decision making.
- ❑ Fiscal decentralization focuses on giving more power to local government and private organizations in financial responsibility.
- ❑ Economic or market decentralization focuses on privatization and deregulation, which is a shift in responsibility for functions from the public to the private sector. Privatization means giving more power and responsibility to private enterprises to perform functions that had previously been monopolized by, or under the responsibility of, the government. Deregulation means reducing the legal constraints on private participation in service provision or allowing competition among private suppliers for services previously provided by the government.
- ❑ Administrative decentralization focuses more on redistribution of authority, responsibility, and financial resources for providing public services among different levels of government. There are three types of administrative decentralization:
 - Deconcentration is the redistribution of decision-making authority and financial and management responsibilities among different levels of the central government. Deconcentration is considered the weakest form of decentralization. An example of this type of decentralization is Kantor Wilayah Departemen Kehutanan.
 - Delegation is a more extensive form of decentralization. By delegation, central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations not fully controlled by the central government, but ultimately accountable to it.
 - Devolution is the transfer of authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status. This type of decentralization is actually dealt with in Law 22/99.

Some advantages of decentralization are as follows:

- ❑ It helps alleviate the decision-making bottlenecks that are caused by central government planning and control of important economic and social activities.
- ❑ It helps simplify complex bureaucratic procedures, and it can increase government officials' sensitivity to local conditions and needs.
- ❑ It helps national government ministries reach larger numbers of local areas with services; allows greater political representation for diverse political,

ethnic, religious, and cultural groups in decision-making; and relieves top managers in central ministries of routine tasks, allowing them to concentrate on policy.

Some disadvantages of decentralization are:

- ❑ It may not always be efficient, especially for standardized, routine, network-based services.
- ❑ It can result in loss of economies of scale and of control over scarce financial resources by the central government.
- ❑ Weak administrative or technical capacity at local levels may result in services being delivered less efficiently and effectively in some areas of the country.
- ❑ Administrative responsibilities may be transferred to local levels without adequate financial resources, making equitable distribution of services more difficult.
- ❑ It can also make coordination of national policies more complex.

Since the fall of President Soeharto there has been pressure from the people of Indonesia to have a more democratic and decentralized government. In order to accommodate this demand for decentralization, the central government has given some power to regional governments. Law 22/99 on regional government and PP (government regulation) 25/00 on the authority of central and regional governments, sets out new government arrangements, including for forestry affairs. Provincial Governors and *Bupatis*, who lead district governments, now

have more power to manage the forests in their jurisdictions.

Devolution in forestry affairs was actually initiated through PP 64/1957, which delegated some central government authority to provincial governments. However, this regulation was rendered ineffective by the enactment of Law 5/1957 on forestry. Law 22/99 on regional government and Law 41/99 on forestry were enacted in response to social, economic and political pressures from within Indonesia and the international community. International pressures included, among others, commitments with WTO, CITES, and AFTA. At the national level pressures include demand for democratization, more equitable distribution of wealth, and a more balanced distribution of power between central government and local governments.

According to Law 41/99 on forestry, the central government must give most of its authority to local governments, especially in the scope of operational activities. The transfer of authority will be arranged through government regulations (PP, *Peraturan Pemerintah*) to implement the law. According to PP 25/2000, with regards to regional autonomy, the central government will only have 16 functions, with most other responsibilities transferred to *Kabupaten/Kota* (district/municipal) government.

Law 22/99 is defined in very general terms, assigning most functions to the regency/district level, including forestry affairs (article 11). There is a recognition in the Ministry of Forestry that this very broad allocation of responsibilities does not carry much operational significance, and that a more detailed specification

taking into account administrative capabilities, needs to be developed.

POSSIBLE PROBLEMS IN THE DECENTRALIZATION OF FORESTRY

There have been some problems encountered with the implementation of Law 22/99 after it took effect on 1 January 2001. The problems are due to a number of factors, namely:

1. Weak government: A loss of confidence because of the deteriorating social, economic and political situation faced by the current central government. This situation has been exploited by many local governments, which are implementing their own concepts of autonomy without considering their responsibilities as part of a united nation of Indonesia (NKRI). There is an attitude of selfishness among local/regional governments.
2. There are still some differences of vision, mission and strategic concepts between central and local government on decentralization issues. According to *Kompas*, 18 April 2001, in Central Java only 14 out of 35 bupati would like to work in coordination with the provincial governor. Parliament of Kapuas District of Central Kalimantan protested the enactment of Presidential Instruction No. 5/2001 and Ministerial of Forestry Instruction No. 127/Kpts-V/2001 regarding moratorium on Cutting and Trading of *Ramin* (*Gonystylus* spp.). They said these two instructions are legally baseless, because they already have their own regulation (PERDA) which regulates trading of *ramin*. Those two instructions are considered contradictory to Law 22/99 and are considered as intervention on local government authority. Therefore, they reject these two instructions and ask the authority of Kapuas District not to follow the instructions (*Kompas*, 11 May 2001). The central government see that *ramin* population is in a dangerous situation. Therefore, it has to be protected for a period of time until it can be shown that the population is viable and it can be safely traded in accordance with the objectives of CITES (Convention on International Trade of Endangered Species of Wild Flora and Fauna). However, the local government see that *ramin* is important for generating local revenue.
3. Nine government regulations (PP) to implement Law 41/99 on forestry have yet to be drafted. These nine PP are regulations on (1) Forestry Planning, (2) Forest Management, (3) Urban Forests, (4) *Adat*/Customary Forests, (5) Forestry Research & Development, Education, Training and Extension, (6) People's Participation in Forestry Development, (7) Forest Reclamation and Rehabilitation, (8) Forest Protection and (9) Forestry Control/Inspection. Without these government regulations, local governments do not have guidelines on how to manage their own forest resources. In this legislative void local governments have formulated their own local government regulations (PERDA) that are contradictory to Law 41/99 and the intentions of future PPs.
4. Personnel: It will be impossible to resolve all personnel matters before December 2001. The issue is simply too large, too complex and too im-

portant to address with rushed regulations. The Ministry of Forestry will transfer organizational units including personnel, budget, equipment and documentation from 25 regional forestry offices, the Forestry Training Center in Manokwari and 30 local mapping and inventory units (Sub Biphut) to local government control. However, there are signs that regional governments do not want to receive the additional personnel to be transferred from these former central government institutions.

5. Regional governments throughout Indonesia, concerned by the budgetary implications of decentralization, are exploring ways of using natural resources, including forest resources, as a means of generating local revenue (PAD), either through taxation or involvement in resource management. There are concerns that with the implementation of Law 22/99 on regional government and Law 25/99 on the fiscal balance between central and regional governments, local governments will over-exploit their natural resources in order to generate local revenue (PAD), without considering sustainability. This is effected in spite of Law 22/99 article 10 paragraph 1 stating that: "Regional governments have the authority to manage national resources available in their jurisdictions and are responsible for maintaining a sustainable environment according to existing laws". This problem has been shown in National Parks in Sumatra and Kalimantan. Two national parks monitored by the international community and the central government

– Gunung Leuser and Tanjung Puting – are in a dangerous situation because of the illegal logging.

6. Forest area boundaries do not always fall under single administrative units. Forests can cover more than one district. Kerinci Seblat National Park is located in four provinces. If the administrators (*Bupatis* and Governors) have different ideas/vision on how they would like to manage this area, it will be very difficult for the park authorities to function effectively. Also, there will not be any incentive for the local government to manage protected forest because it cannot be exploited. There is no regulation yet on how to compensate the area/district which has forest located in upland areas that cannot be exploited, and therefore cannot generate revenue.
7. Under Law 22/99 on regional autonomy, forest law violations can be punished by a maximum fine of five million rupiah. Under Law 41/99 the minimum fine for a similar offense is one billion rupiah. This contradiction in the legislation prevents effective law enforcement, and in the former case (Law 22/99) the lenient punishment does not reflect the crime, which pays much higher dividends.

Successful decentralization could enhance democracy and improve public service delivery to local populations. However, experience has shown that achieving these objectives of decentralization is not easy. There are many international examples of disappointment with the results of decentralization. Therefore, it is very important to con-

sider the risks involved in decentralization so that measures can be taken to lessen or remove them. Risks should be reduced by delaying the implementation of certain aspects of decentralization (for example in the case of relocating personnel), although this in itself could generate political risks.

In the Ministry of Forestry itself, before the euphoria of decentralization, there was growing pressure to shift the old forest management paradigm to a new paradigm which reflects the needs of our changing society. The new paradigm for forestry development is as follows:

1. Shift from an orientation with emphasis on the economic aspects (profit oriented) to one with an emphasis on a balance between the social, ecological and economic aspects of forests.
2. Shift from forest development and policy with an emphasis on timber management to the one that is multipurpose forest management oriented. Besides timber, forest can give other benefits or uses such as hydrological regulation, other non-timber forest products, recreation and micro-climate regulation.
3. Community-based forestry development is focused on strengthening local economies and empower local communities. Sustainable forest management will not be achieved without the participation of local communities in every aspect of forest management.

Therefore, forestry development should be implemented on the basis of the following principles:

1. The intended beneficiaries must be clear;
2. Public accountability must be secured, reflected by a solid system of inspection and a clear division of responsibilities;
3. Policy and management should be transparent to secure the confidence of local and other interest groups;
4. Policy should be location specific, and thus tailored to local social, economic and cultural conditions; and,
5. More attention must be given to the role of small and medium enterprises and cooperatives, so that they can strengthen the quality, productivity and competitiveness of local economies.

RECOMMENDATIONS

Recommendation on regional autonomy to be successful in the context of forestry are as follows:

1. In principle, districts which own the forest resources and producing revenue from this sector should get the biggest portion of revenue. However, we have to consider the districts which do not have forest resources or the districts whose forests are already degraded from the previous logging and receive negative externalities.
2. It is not acceptable to promote the idea of "*Putra Daerah* (indigenous people)" or Local Companies First and Others Second. All citizens must have equal rights based on their professionalism, and of course with consideration for the interests of local people.
3. In order to increase local revenue generation, the exploitation of forest resources must be based on Law 22

article 10 paragraph 1 stating that: "Regional governments have the authority to manage national resources available in their jurisdictions and are responsible for maintaining a sustainable environment according to existing laws." This authority must be based on the commitment on land use plan (*rencana tata ruang*) and must consider international commitments.

4. It is agreed that with the statement of Vice President that regional autonomy should be implemented step by step and the phase can be different from one district to another depending on existing capacity. It might be better if regional autonomy is implemented at the level of provincial government first.
5. Central government must work seriously in preparing guidelines from every sector to be used by regional government and regional government must have vision that their autonomy will be used mostly for the benefits of local people and also for the benefits of all Indonesian people as a whole. Indonesian forest management is based on the sustainable benefit principle. Forest benefits can be both tangible and intangible. Tangible benefits include timber, rattan, and medicinal plants, among others. Intangible benefits include water control, microclimate regulation, and recreation. The main goal of Indonesian forest management is to improve the livelihoods of the Indonesian people, both for present and future generations.
6. The National Forest Program cannot be separated from decentralization in

the forest sector. The National Forest Program is a comprehensive policy framework for the achievement of sustainable forest management, based on a broad intersectoral approach at all stages, including the formulation of policies, strategies and plans of action, as well as the implementation, monitoring and evaluation. The importance of NFP is to ensure the conservation, management and sustainable development of forests to meet local, national, regional and global needs and requirements, for the benefit of present and future generations. Therefore, it is important for the central government to facilitate the process of the NFP, whether it is at a national level, provincial level or district level.

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Forestry Management in the Era of Regional Autonomy

Nana Suparna

INTRODUCTION

WE all hope that the change in the governmental system from a centralized toward a decentralized system will be able to improve both an evenly distributed general welfare of the whole society and the quality of the environment.

Forestry management aims to exploit and utilize the richness of the forest resources for the people's welfare. The implementation should be economically sound, environmentally accountable and both socially and culturally acceptable. Those three aspects, namely the economic aspect, the environmental aspect and the socio-cultural aspect, should go in parallel without any of them being either neglected or prioritized. Thus, only when those three aspects are in balance, can the success of a forestry management be achieved.

The era of regional autonomy that began in early 2001 is expected to provide a conducive environment for conducting business in natural and plantation forest sectors. However, forest management practices should be focused on product quantity, quality as well as diversity, without ignoring the sustainability

of production, environmental, and socio-cultural functions.

Improving the performance of forestry management needs first to examine the development of the activity, the problem or obstacle, and the causes of the problem. The answer to the question whether regional autonomy will improve forestry management will depend on the extent to which the causes of the obstacles arising during the decentralization process can be eliminated. If regional autonomy aims only to transfer authority from the central government in Jakarta to the regional governments without any paradigm shift and improvements of regional government's policies, then this will simply mean a transfer of problems. Even worse, if increased authority on the part of regional governments in decision-making is not armed with control mechanism to check the quality of policies, it will produce a bad output.

Nevertheless, decentralization is an inevitable process in the nation's history. The previous period of centralization of power has resulted in failures and discontent, because of the gap between the central and the regional government. Therefore, it is of utmost importance in this era of regional autonomy to make

Table 1

**CONTRIBUTION OF PLYWOOD AND FOREST-BASED EXPORTS
TO FOREIGN EXCHANGE EARNINGS**

Year	Plywood Exports (000 US\$)	Forest Based Exports (000 US\$)	Non-Oil Exports (000 US\$)	Oil Exports (000 US\$)	Plywood's Contribution to		Forest Based Prod.
					Forestry Revenues	Total Exports	Contribution to Total Exports
1994	4,036,081	6,260,172	30,359,700	9,693,700	64,47%	10,08%	15,63%
1995	3,886,944	6,691,376	34,953,400	10,464,600	58,09%	8,56%	14,73%
1996	4,029,478	7,409,579	38,092,900	11,722,000	54,38%	8,09%	14,87%
1997	3,887,999	7,476,902	41,821,049	11,622,549	52,00%	7,27%	13,99%
1998	2,486,166	6,542,479	40,975,476	7,872,163	38,00%	5,09%	13,39%
Average	3,665,334	6,876,102	37,240,505	10,275,002	53,31%	7,71%	14,47%
1999	2,704,741	7,976,096	38,478,569	9,186,868	33,91%	5,67%	16,73%

Source: Biro Pusat Statistik (BPS), MPI, forest-based exports 1994-1999 and APKINDO, for plywood exports 1994-1999.

the regional government capable of performing its functions effectively and efficiently. In order to achieve a successful decentralized system, the implementation of new policies should be undertaken appropriately, so that failures in the previous era will not be repeated. Therefore, a shift of paradigms⁶— from a mechanistic one (mechanical, physical, techno-centric, quantitative) to an ecological one (organic, holistic, participatory, eco-centric, and qualitative) – is a must.

DEVELOPMENT OF FORESTRY MANAGEMENT

Within the last three decades forestry business activities, which were promoted greatly since the 1970s, had contributed to the positive and stable development of the national economy. Nevertheless, since 1990s due to various reasons the

développement of the forestry sector has declined in qualitative terms, although has been relatively stable in terms of total foreign exchange earnings.

Table 2

**FOREIGN EXCHANGE EARNINGS OF
PULP AND PAPER INDUSTRY**

No.	Year	Volume (Tonnes)	Foreign Exchange Revenues (US\$)
1.	1995	1,500,720	1,257,950,000
2.	1996	2,325,610	1,309,769,000
3.	1997	2,986,020	2,000,000,000
4.	1998	4,490,700	3,500,000,000
5.	1999	5,000,000	4,000,000,000
Total		16,303,050	12,067,719,000
Average		2,717,175	2,011,286,500

Source: Asosiasi Pulp dan Kertas Indonesia (APKI), 2000

Table 3

REALIZED ROUNDWOOD AND WOODCHIP PRODUCTION (BBS)

No.	Year	Roundwood Production (m3)		Total	BBS (m3)
		RKT	IPK		
1.	1994/1995	17,308,737	4,708,696	22,017,433	pm
2.	1995/1996	16,943,933	5,398,196	22,342,129	8,338,525
3.	1996/1997	15,268,134	8,021,328	23,289,462	9,189,337
4.	1997/1998	15,821,397	10,162,081	25,983,478	13,650,650
5.	1998/1999	10,179,406	6,056,174	16,235,580	6,762,156
6.	1999/2000	7,158,274	6,046,446	13,204,720	pm
Total		82,679,882	40,392,921	123,072,802	37,940,667
Average		13,779,980	6,732,153	20,512,134	9,485,167

Source: Direktorat Jenderal Pengelolaan Hutan Produksi, 2000.

In the year 2000 various exported wood commodities have made up a total of US\$7.57 billion (*The Jakarta Post*, 4 May 2001). The total value of those commodities exports can be broken down as follows:

- plywood export - US\$ 1.99 billion
- export of furniture &
 wood component - US\$ 1.64 billion
- pulp & paper - US\$ 3.00 billion
- other wood
 products - US\$ 0.94 billion
- Total - US\$ 7.57 billion

As shown in Table 1, there is a change in the structure of exported wood commodities, namely the decrease of the value of plywood. The decrease of plywood product is associated with the decrease in wood production from natural forest that is administered by TPTI (RKT)

system. However, there is a slight increase in other forest product, especially pulp and paper (see Table 2).

The data presented in Table 3 and Table 4 indicate that until the year 2000

Table 4

**ROUNDWOOD PRODUCTION
(INCLUDING INDUSTRIAL TREE CROP
ESTATES)**

No.	Tahun	M3
1.	1994/1995	24,027,276
2.	1995/1996	24,850,015
3.	1996/1997	26,069,281
4.	1997/1998	29,520,321
5.	1998/1999	19,026,943
6.	1999/2000	20,619,942
Total		144,113,778
Average		24,018,963

the increase in pulp and paper products was not caused by an increase in roundwood production from planted forest, but was instead caused by the increased use of roundwood production generated from IPKs (clear cutting permits) or natural forest conversions to HTI (industrial tree crop estates).

The decrease in the roundwood production from natural forest is indicated by the constant decrease of the sum of HPH (right of forestry management), from the peak of 652 HPH to only 293 HPH in January 2001. In Eastern Kalimantan only, in the year 2000 there remained 103 HPH in which 67 are still active. Yet, in the year 2001 there is only 81, with only 43 being active.

The Development of the Industrial Tree Crop Estates (HTI)

The area reserved for HTI until the year 2000 was 7.7 million hectares, but the area which has been planted only makes up 1.8 million hectares or only 23% of the total gross area reserved. The extended size of the HTI plants per HTI group and their company situation per December 2000 can be seen in Table 5.

The Development of Forest Size

So far there have been no periodically updated accurate data on the size of Indonesian forests. However, a number of studies show that forest stocks are continually decreasing. According to World Bank Report, in the last 10 years Indonesian forests' size decreased by 1.5 million hectares annually. The develop-

ment of Indonesian forests' size can be viewed from the approach of forest zones, which is as follows:

The size of forest zone is not the same as the size of forested area, since some parts of forested area are not forested anymore. This could mean that Indonesian forests' size is smaller than 120 million hectares (see Table 6). Hence, it is not easy to determine whether forestry sector can perform well and consistently, although it cannot be determined either whether there are actually concessionaires with good performance records.

PROBLEMS FACED IN FORESTRY MANAGEMENT

There are many problems and obstacles arising in forestry management, which may be classified in the following:

Uncertainty Over Working Area

So far certainty and stability in the working area of forestry management units, especially outside Java, are rarely found. This is reflected in the demands from local communities to recognize their traditional rights over working areas of forestry management previously granted by the Government to the company. It can also be seen in local communities' refusal to stick to the existing boundaries of the area under HPH operation. This underscores the fact that certainty over the working area in forestry management is one principle that should be adhered to for the sake of sustainability of business operations and of the forest.

Table 5

STATUS OF INDUSTRIAL TREE CROP ESTATES (HTI), AS OF DECEMBER 2000

No.	Firms Status	Pulp		Mechanical Wood		Transmigration		Total		
		Number of firms	Area under operation (ha)	Number of firms	Area under operation (ha)	Number of firms	Area under operation (ha)	Number of firms	%	Area under operation (ha)
1.	Operating	9	1,577,044	14	376,056	28	356,265	51	29	2,309,3
2.	Operating with difficulties	3	632,008	14	356,350	15	180,360	32	18	1,168,7
3.	Stopped operations	6	859,811	26	599,324	24	237,310	56	32	1,696,4
4.	No operations at all	11	1,891,465	26	689,564	0	0	37	21	2,581,0
Total		29	4,960,328	80	2,021,294	67	773,935	176	100	7,755,5
Area converted		1,186,999 ha		360,877		308,171 ha		1,856,047 ha		

Source: Direktorat Jenderal Pengelolaan Hutan Produksi, 2001.

Table 6

SIZE OF FOREST AREA IN INDONESIA

Forest Status	TGHK (1983)		Harmonized Classification 1999 (TGHK* & Tata Ruang)		Damaged Forest	
	Area (mill. ha)	%	Area (mill. ha)	%	Area (mill. ha)	%
Conservation Forest	18.80	16.52	20.50	18.26	3.65	17.80
Protected Forest	30.70	26.98	33.52	29.85	2.16	6.44
Production Forest						
- Limited	31.30	27.50	23.06	20.54	14.25	27.46
- Permanent	33.00	29.00	35.20	31.35		
Permanent Forest	113.80	100.00	112.28	100.00	20.06	17.87
Conservation Forest	26,60 million ha		8,08 million ha			
Total	140,40 million ha		120,36 million ha			

*TGHK – Forest Land Use Plan, 1982.

Source: Badan Planologi Kehutanan dan Perkebunan.

Incapability in Controlling and Enforcing the Rules

The government's incapability of controlling and enforcing the laws/rules can be seen in many incidents of illegal logging, forest clearing and forest fires. The illegal logging activities, either for domestic sale or for smuggling abroad, and forest clearing occur more frequently during the reform era. One of the illegal logging activities, i.e., clearing of forests or fires in a working area of a forestry management unit, is one of the obstacles that make sustainability in forestry management impossible.

Lack of Professionalism in Forestry Management Activity

The lack of Professionalism of human resources in forestry management is reflected in the low level of productivity and efficiency in utilizing the forest resources, the poor quality of converted forest land, unchecked negative effects of forestry management toward the environment, and the low quality of some rules in forestry management. Low level of human resources quality can be found in both in HPH/HTI management units as well as in the government bureaucracy.

Centralization in Forestry Management

The centralized system in forestry management has brought about some negative consequences, for example, uniformed rules in forestry management, although each site has different characteristics, in terms of soil condition, vegetation form, or social and cultural situation.

There is a gap in distributing the economic returns, benefiting the central government, thus providing less incentives for the regional governments to be concerned about forestry business operations and management in their regions. Besides, the regional government does not focus its efforts on securing and protecting forests.

The success of the regional government in managing the forestry sector, particularly with regard to forest business, will be determined by the extent to which the regional government is capable of reducing the four above mentioned problems.

FUTURE CHALLENGES TO THE REGIONAL GOVERNMENT IN ITS EFFORTS TO ACHIEVE A SUCCESSFUL FORESTRY MANAGEMENT

Until now it seems that only the fourth problem could be tackled, i.e., centralization of governance. Nevertheless, it can still be questioned whether the decentralization process has produced sound and appropriate policies, and whether the output of the policy has met the interests of the people in the rural areas. Or has it just transferred the interests of the central government to the regional government level? At the same time, there remain three other problems that need to be solved if regional autonomy should bring about effective forestry management. Moreover, other problems outside complex forestry management do exist. For instance, several districts are not supported by sufficient budgets, human resources, and adequate facilities.

Business in the era of reform and in the beginning of the era of regional autonomy has faced a more unfavorable situation, with less certainty and more hindrances in conducting their business.

In the following, there are some examples of policies or incidents which took place during the initial phase of the decentralization process. They are very disturbing to the forestry business community:

1. The issuance of new licenses to Rights for Forest Product Management (IPHH) which is contradictory with the existing HPH

The issuance of IPHH in the HPH areas that belongs to other companies generates conflicts of interests and also damages the previously arranged sustainable logging cycles. Questions do arise as to whether the regional governments have denied the licenses previously issued by the central government? (See Appendix for some example of some IPHH which are contradictory to the existing HPH licences).

2. Decision over location and area size allowable for IPHH holders not in accordance with sustainable logging cycles

IPHH which is issued without considering the rules of sustainability will surely generate negative impacts to the environment and sustainability of the forest, since the IPHH locations are allocated without any considerations for long-term forestry planning and other socio-cultural criteria.

3. Weak monitoring of IPHH

This causes the dissemination of illegal practices and smuggling and will surely foster unhealthy competition in forestry business.

4. The issuance of regional retribution fees on forest products

For example, the regional government of the City of Samarinda has issued the Regional Regulation No. 31/2000, which stipulates that forest products sold in the city of Samarinda will be subject to a retribution fee of as much as Rp 2.500,- per cubic meter wood. The regional government of the Kotawaringin Timur, Central Kalimantan has issued the Regional Regulation No. 14/2000, which imposes an industrial retribution on logs processed in the district amounting to Rp. 10.000,- per cubic meter. In addition, logs sent to outside the district will be subject to a retribution of Rp 80.000,- per cubic meter.

5. Demands by communities

Besides policies issued by the regional governments which could disturb business activities, the many claims made by communities are not based on any clear rules. They are very disturbing to the operations of the companies, for they increase the company's costs due to increased uncertainty in terms of time and money, not to mention the unclear status of the community representative and the *adat* rights they claim. The unclear rules are a disincentive for companies. Increasing demands will certainly damage com-

panies and even push some to bankruptcy. The Regional Government cannot do much to overcome that problem.

CONCLUSION

There are four principal obstacles to the successful implementation of forestry policies: the uncertainty over the working area; the inability to monitor and enforce rules/laws; the lack of professionalism of the human resources; and centralization of forestry administration.

So far, only one problem could be tackled during the era of regional autonomy, that is the problem of centralization of forestry administration. This is manifested in Act No. 22/1999 on the Regional Autonomy and Governmental Act No. 25/1999 on the Authority of the Government and Provinces. Nevertheless, it remains a question whether they will be effective to overcome the problem.

Whether the regional government will succeed in forestry management activities will then depend on how far the regional government can overcome three other problems in the forestry management, namely:

- a. the uncertainty of the working area;
- b. effectiveness of monitoring and law/rules enforcement;

- c. development of professionalism human resources involved in the forestry management.

On the other hand, it has to be said that the regional governments also face problems of constrained government facilities, human resources and development budgets. In addition, local communities, in their euphoria over newly gained freedoms during the democratization process, frequently tend to overlook existing norms of positive law.

Nevertheless, decentralization -- even with its current shortcomings and limits -- is an inevitable process in the national history that has to be faced. Therefore, what really matters now is not questioning the necessity of decentralization, but how the regional government can avoid repeating the past mistakes committed by the central government. Among other things, the paradigm needs to be shifted from a mechanistic one to an ecological one. Besides, the regional governments should train their human resources to be more professional in dealing with the forestry management.

In line with an ecological paradigm, it is imperative to form a Multi Stakeholders Forum that should be involved in all stages of decision-making, starting from the planning to the implementing and monitoring stage of policies.

APPENDIX

**CASES OF OVERLAPPING IHPHH AND HPH AREAS
IN THE DISTRICT OF KUTAI KERTANEGARA, EAST KALIMANTAN**

1. At HPH PT. Oceanas Timber Production

No.	Name of IHPHH Holder	Area (Ha)	Description
1.	Kemyien Lie	100	- SK. Bupati No. 522.21/163/PRODA.I/VI/2000 Tgl. 3 Juni 2000
2.	Kensing Dak	100	SK. Bupati No. 522.21/163/PRODA.I/VI/2000
3.	Eng Beng	100	SK. Bupati No. 522.21/164/PRODA.I/VI/2000
4.	Bagak	100	SK. Bupati No. 522.21/165/PRODA.I/VI/2000
5.	Ba Lie	100	SK. Bupati No. 522.21/166/PRODA.I/VI/2000
6.	Ramli	100	SK. Bupati No. 522.21/167/PRODA.I/VI/2000
7.	Nyuk Je	100	SK. Bupati No. 522.21/168/PRODA.I/VI/2000
8.	Nyuk Dok	100	SK. Bupati No. 522.21/169/PRODA.I/VI/2000
9.	Wea Dok	100	SK. Bupati No. 522.21/170/PRODA.I/VI/2000
10.	Hat Pol	100	SK. Bupati No. 522.21/171/PRODA.I/VI/2000
11.	Heang Dea L.S.	100	SK. Bupati No. 522.21/172/PRODA.I/VI/2000
12.	Bit Keduk	100	SK. Bupati No. 522.21/173/PRODA.I/VI/2000
13.	Hendra Irawan	100	SK. Bupati No. 522.21/252/PRODA.I/IHPHH/XI/2000 Tgl. 13 Nopember 2000
14.	Ding Hong	100	SK. Bupati No. 522.21/253/PRODA.I/IHPHH/XI/2000
15.	Diah Ling	100	SK. Bupati No. 522.21/254/PRODA.I/IHPHH/XI/2000
16.	Lung Bit	100	- No. 16 s/d 20 baru Rekom Kepala Dinas Kehutanan
17.	Siang Lun	100	Kab. Kutai, Nomor 522.21/7273/DK-III/X/2000
18.	Jhonathan	100	Tgl. 7 Desember 2000
19.	Abdul Hamid	100	
20.	Hat Neang	100	- All above mentioned IHPHH are located in KBNK area based on the Regional Land Use Plan as ap- proved by the governor of East Kalimantan and the head of the regional parliament of East Kali- mantan.
Total		2000	

2. At HPH PT. Limbang Ganeca

No.	Name of IHPHH Holder	Area (Ha)	Description
1.	Yudianto	100	SK. Bupati No. 522.21/266/PRODA.I/IHPHH/XII/2000 Tgl. 4 Desember 2000
2.	Marsyid	100	SK. Bupati No. 522.21/268/PRODA.I/IHPHH/XII/2000
3.	Wahtudin	100	SK. Bupati No. 522.21/271/PRODA.I/IHPHH/XII/2000
4.	H. Wahab	100	SK. Bupati No. 522.21/275/PRODA.I/IHPHH/XII/2000
5.	pm	100	pm
6.	pm	100	pm
7.	pm	100	pm
8.	pm	100	pm
9.	pm	100	pm
Total		900	

Note: 900 ha within the area owned by the concessionaire PT. Limbang Ganeca were allocated under the IHPHH scheme.

DFID Multi-Stakeholder Forestry Programme (MFP)

The MFP Management and Facilitation Team

INTRODUCTION

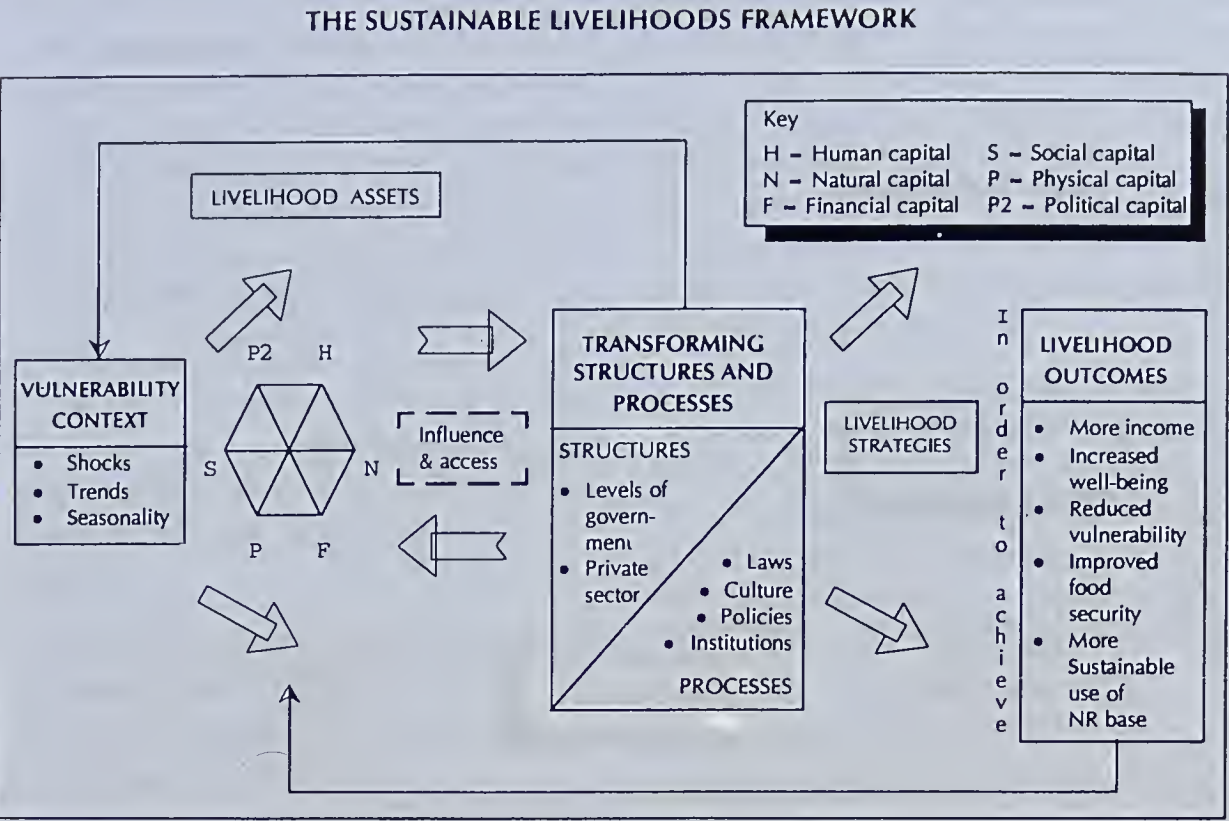
FORESTS cover approximately half of Indonesia's land area, and an estimated 90 million people, many of them poor, are dependent on forest resources for their livelihood. The country has suffered rapid deforestation in recent years, and major reform is needed to compensate for the effects of past mismanagement. The democratization process starting in 1998 has created a suitable environment for policy reform; however, conflicts over access to resources, the weakening rule of law and the persistent rearguard actions of powerful vested interests have tended to complicate this process.

These volatile and rapidly changing political and social conditions have created considerable uncertainty in the forest sector. These conditions also have complicated the delivery of aid and placed a considerable risk of failure on donor interventions. Traditional 'project' modes of technical support are ineffective in such political uncertainty, yet both the rapid loss of the remaining forest resources and Indonesia's search for a new forest management paradigm make it imperative that donors continue to work in the sector.

New policies, promulgated in a consultative fashion and encompassing the needs of all forest user groups, are needed to redress the unfortunate legacy of policy failure and deep-rooted disaffection left by the former regime. Without such changes to policy, there will be no end to the violations of law and sustainable exploitation which are degrading the remaining forest resource base and impoverishing ever larger numbers of forest dependent people.

An 18-month exercise in consultation and appraisal conducted by DFID to determine what useful role it might play in Indonesia's forest sector reflected many of these concerns. As a result of this exercise DFID has recently begun implementing a programme designed to provide support to government bodies and civil society organisations which are working to lead change and reform in the forest sector. This Multi-Stakeholder Forestry Programme (MFP) provides a flexible framework aimed to support demand-driven policy research and a large number of promising community-based natural resource management initiatives with a diverse range of partners from central government, local government, civil society and local communities across the country. The fertile dial-

Figure 1



ogue and debate, which are based on the experience from the field, provide an extensive and diverse policy laboratory. This is intended to help Indonesian people and organisations to determine more just and equitable forest management policy for the future.

SUSTAINABLE LIVELIHOODS AND THE POLICY PROCESS

The MFP is created based on previous DFID support to forestry, but is focused primarily on alleviating rural poverty and promoting a more equitable and consensual approach to natural resource management. Alleviating poverty is DFID’s primary objective. This objective is addressed through application

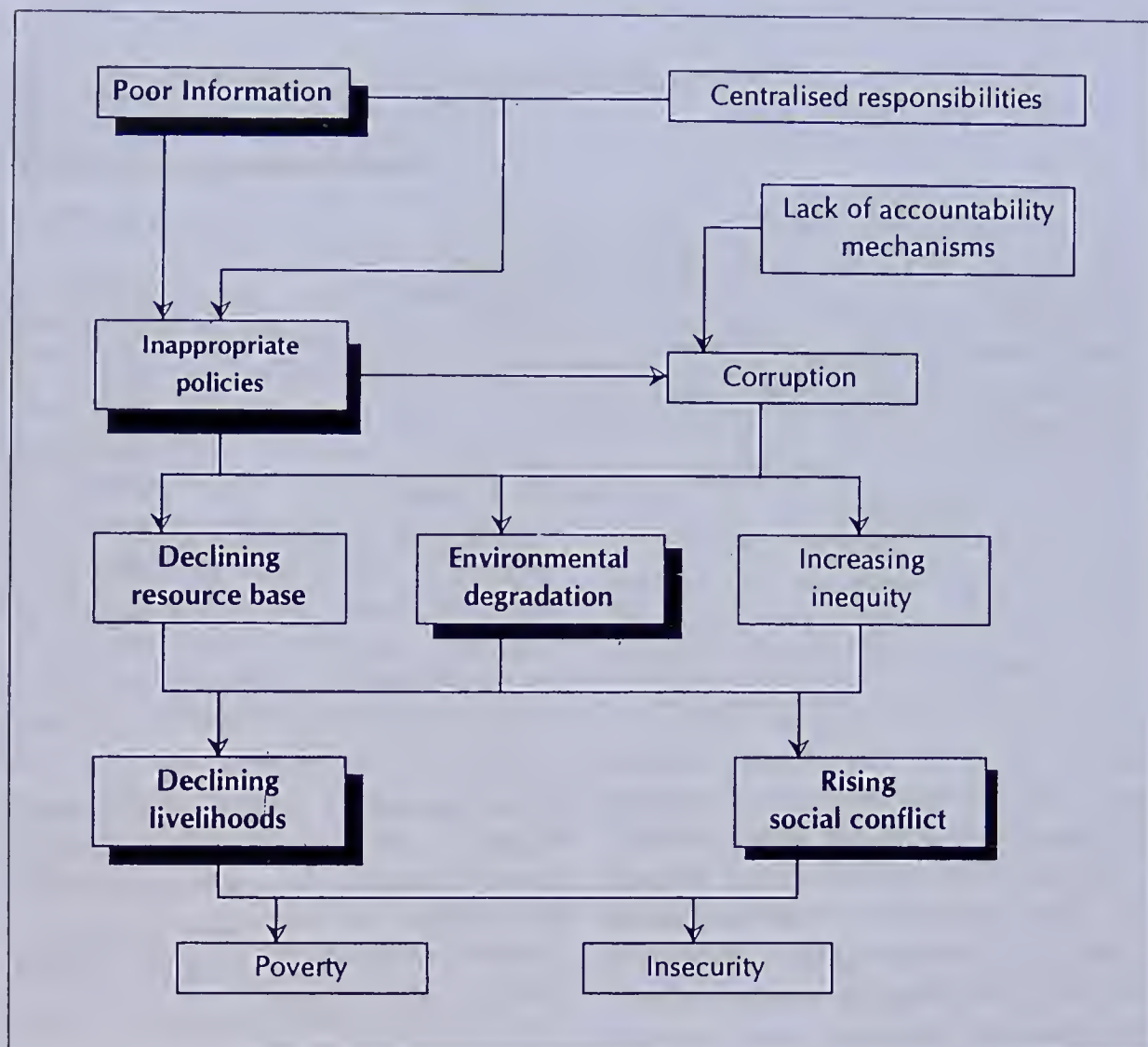
of the sustainable livelihoods framework (Figure 1), which is designed to address poverty alleviation in a way which takes into account the full range of policies, pressures, resources and capital existing within a local economy.

SUSTAINABLE LIVELIHOODS AND FORESTS

The MFP focuses on the policies, processes and institutions which influence the livelihood options available to forest-dependent peoples. These influences are depicted in the Transforming Structures and Processes box in Figure 1. The programme has been designed to enable a diverse range of stakeholders to inform the process of policy and in-

Figure 2

FOREST POLICY PROBLEM TREE



stitutional change to bring about a new paradigm in forest management which is capable of meeting the diverse needs of different user groups, including the forest-dependent poor.

The programme outputs have been derived from a participative analysis of why policies and institutions have failed (and are failing) to meet the needs of

forest-dependent people. The outcome of this analysis is summarized in Figure 2.

THE MULTI-STAKEHOLDER FORESTRY PROGRAMME (MFP)

The goal of the MFP is to "foster the livelihoods of poor people dependent on forest resources". Initiatives funded in the preparatory phase of the programme

have focused on strengthening and adding value to innovative community-based forest management initiatives on Indonesia's outer islands. This has been achieved through disbursing accountable grants to partners, facilitating cross-cutting and networking activities between partners, and helping feed lessons from these experiences into the policy planning process.

The main emphasis of the programme is on the upstream constraints to sustainable and equitable forest management, as defined in Figure 2. This emphasis is reflected in the five programme outputs:

1. Policy research to contribute to a national forest strategy;
2. Demonstration of mechanisms for improved accountability;
3. A change in attitudes to decision making through advocacy and dialogue;
4. Demonstration that forest users can manage forests to improve their livelihoods;
5. An improved flow of information on best forest policy and practice.

The main mechanism to achieve these outputs is through the award of accountable grants to a range of partner organizations working to promote change in the forest sector. Partner organisations include both government and non-government organisations. In the Ministry of Forestry, the planning bureau (*Badan Planologi*) is the main partner organization. In civil society, groups working to promote more equitable and sustainable management of forests have been given support.

The grants mechanism allows a large range of partners to be engaged across a wide geographic area, minimizing the risks of disruption caused, for example, by uncertainty in any single institution or local unrest. If certain initiatives are thus constrained, many other initiatives will continue to yield fruitful results and the programme will continue to move towards its overall objectives.

A key feature of the MFP is the arrangement for shared learning of experiences with a view to policy reform. For this purpose, a management system has been set up to promote a decision-making process based on consensus (Yapika 2001). The main elements of this system are:

1. An Annual Meeting of Partners to review progress, set broad strategic objectives and appoint a steering committee;
2. A Steering Committee to prepare and oversee the implementation of the annual targets set by the Annual Meeting of Partners;
3. A DFID implementation team, answerable to the Steering Committee and Annual Meeting of Partners, which is responsible for identifying and supporting partners, and facilitating shared learning between programme initiatives;
4. A Partnership Approval Committee to review partnership proposals.

The delegation of decision-making to partners, and their role in steering the programme will hopefully help to create a grants instrument capable of supporting an Indonesian agenda for policy reform led by Indonesian organ-

isations, and thus enable the programme to have a sustainable impact.

Further provisions have been made for sustainability at a decentralized level through a network of regional facilitators who will work to set up regional forestry forums which reflect the multi-stakeholder composition of the programme's national management structure.

CONCLUSIONS

Delivering effective assistance to the forestry sector in post-Soeharto Indonesia presents many serious challenges. Volatility, uncertainty, persistent conflict and growing lawlessness are manifestations of a deep-rooted disaffection with past and current policy. Given these difficulties, it is vital that donors remain active in the sector and support those leading reform at this important juncture in time.

There is no quick fix to address the many problems faced in the sector -- the major policy reforms which are needed will take many years to implement, and donor support must reflect this reality. In this early phase of democratic transition DFID believes the best assistance that it can provide to the ongoing process of change is through support for promising field initiatives, consultation, and informed dialogue and debate amongst a wide range of Indonesian stakeholders to promote mutual

understanding of the needs of different forest user groups, including forest-fringe communities.

The MFP reflects this priority. Only through the emergence of policy which takes into account the needs of the many and various forest user groups will there be a reversal of the alarming environmental degradation of recent years, but this will happen only when all forest users are equal partners in the policy bargaining process. This is not yet the case: The weak -- the country's many subsistence farmers and forest users -- do not yet have an equal voice in policy dialogue. Helping to change this and, through promoting well-informed discussion and debate, supporting new consensual policy drafted by Indonesian people for Indonesian people, are the best roles donor support can play in these uncertain times.

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The Political-Economy of Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industries

Christopher Barr

SINCE the late-1980s, Indonesia's pulp and paper industries have undergone very rapid expansion to push the country into the ranks of the world's top 10 producers. Indonesia's pulp production capacity grew from 606,000 to 4.9 million metric tonnes per annum between 1988 and 1999, while the paper industry's processing capacity rose from 1.2 million to 8.3 million tonnes per annum (tpa) (Indonesian Pulp and Paper Association 1997; Hong 1999). By 1999, pulp and paper products generated US\$2.65 billion in export earnings, accounting for over 50% of the country's forest-related exports (Bank Indonesia 2000).

The meteoric growth that has occurred in both industries, however, has proceeded

far more rapidly than efforts to secure a sustainable supply of raw materials through the development of pulpwood plantations (Cossalter 1998). Of the 100 million m³ of wood estimated to have been consumed by the pulp industry during 1988-1999, only eight percent was harvested from plantations. To date, Indonesia's pulp mills have relied heavily on unsustainable and, in many cases, illegal sources of fiber, much of which is obtained through the staged clearing of natural forests. During this period, demand for pulpwood is estimated to have resulted in the loss of over 800,000 ha of natural forest. Although the industry's largest producers are now taking steps to bring online industrial pulpwood plantations (*hutan tanaman industri*, or HTIs), it is projected that most of the country's pulp mills will face sizeable deficits of sustainably harvested fiber for at least the next 7 years, and quite possibly well beyond.

This paper examines the factors that have led Indonesian pulp producers to make large-scale investments in processing facilities without first securing a legal and sustainable raw material supply. It is argued that the country's pulp and

¹This article is a condensed version of Barr, Christopher (2000) "Profits on Paper: the Political-Economy of Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industries," CIFOR and WWF Macroeconomics Program Office, November 28, [<http://www.cifor.cgiar.org>]. For further elaboration on points discussed herein, readers are encouraged to see the original paper. Research for the study was supported by CIFOR and WWF Macroeconomics Program Office. The author would like to thank David Kaimowitz, Grahame Applegate, Christian Cossalter, Masya Spek, Arnoldo Contreras-Hermosilla, Reed Merrill, David Reed and numerous informants who may wish to remain anonymous for their generous assistance and input into this study.

paper conglomerates have been willing to invest billions of dollars in high-risk projects because their owners have been able to avoid much of the financial risks involved. Three factors have allowed them to do so: *first*, heavy government subsidies, including access to wood from natural forest at costs well below its stumpage value; *second*, weak regulation of Indonesia's financial sector; and *third*, failure on the part of international financial institutions to adequately assess the risks involved in pulp and paper investments.

Indonesia's economic crisis has compounded the problems of financial risk and poor corporate governance in the pulp and paper industries. Heavy debt loads have resulted in some of the nation's largest mills being placed under the Indonesian Bank Restructuring Agency (IBRA). IBRA has allowed these companies to continue operating under their pre-crisis management teams and there are strong reasons to believe that the agency may write-off a substantial portion of their debts. For Indonesia's two largest producers -- the Sinar Mas (Asia Pulp & Paper, APP) Group and the Raja Garuda Mas/APRIL Group -- the process of resolving outstanding debts with foreign creditors has been linked to further expansion of their processing operations. Debt-driven expansion is likely to put added pressure on Indonesia's remaining natural forests and to raise the financial stakes if these groups are not able to secure low-cost fiber over the long-term. Moreover, the spectacular financial collapse of the Sinar Mas/APP Group in 2000 highlights the considerable degree to which high-risk pulp and paper invest-

ments pose moral hazard problems, both for the Government of Indonesia and the international investment community.

LARGE CAPITAL INVESTMENTS BY INDONESIAN PULP AND PAPER CONGLOMERATES

The 700-percent growth that has occurred in Indonesia's pulp and paper industries over the past decade has involved an aggregate capital investment of approximately US\$12 billion. In both industries, there has been a trend toward the development of processing facilities with very large production capacities, which have generally entailed high fixed costs -- in several cases, exceeding US\$1 billion per mill (Bell 1997; Spek 2000). These large investments have often been justified as enabling Indonesian producers to remain profitable in highly cyclical pulp and paper markets by producing large volumes of product at low cost (Spencer and Choi 1999). Due to the high fixed costs involved, however, pulp and paper producers generally must run their mills at or near capacity on a continual basis in order to meet interest payments.

Indonesia's pulp industry is dominated by four conglomerates, which control seven large mills (see Table 1). Six of these mills are located in Sumatra, while one -- the Bob Hasan Group's Kiani Kertas -- is located in East Kalimantan. The industry's two largest producers, the Sinar Mas Group and the Raja Garuda Mas Group, have established pulp processing operations that are directly linked to affiliated paper and board production facilities. In 2000, Sinar Mas controlled several paper and board

Table 1

INDONESIAN PULP PRODUCERS AND PROCESSING CAPACITY, 2001

Company	Group	Mill Location	Capacity (tonnes per annum)
Indah Kiat Pulp & Paper	Sinar Mas	Riau	1.7 m
Riau Andalan Pulp & Paper	Raja Garuda Mas	Riau	1.3 m
Lontar Papyrus	Sinar Mas	Jambi	565,000
Kiani Kertas	Bob Hasan	East Kalimantan	525,000
Tanjung Enim Lestari	Barito/Marubeni	South Sumatra	450,000
Indorayon	Raja Garuda Mas	North Sumatra	220,000
Kertas Kraft Aceh	Bob Hasan/GOI	Aceh	150,000

Sources: Indonesian Pulp & Paper Association (1999); Barr (2000).

mills in Indonesia with an aggregate production capacity of 3.8 million tonnes per annum, representing just under 50% of the nation's overall processing capacity in those industries. Both the Sinar Mas Group and the Raja Garuda Mas Group have financed their expansion efforts through holding companies that are incorporated in Singapore and listed on the New York Stock Exchange: Asia Pulp & Paper (APP) and Asia Pacific Resources International, Ltd (APRIL), respectively.

Reliance on Unsustainable and Illegal Fiber Supplies

The pulp industry's rapid expansion between 1988 and 1999 entailed a rise in annual pulpwood consumption from 1.8 million m³ to 16.7 million m³ (Indonesian Pulp & Paper Association 1999). Prior to the current financial crisis, industry analysts projected that Indonesia's pulp processing capacity would climb

further to 7.2 million tpa by 2010 at which point the industry would be capable of consuming over 35 million m³ of wood per year (see Barr 2000). The Indonesian government has promoted the development of industrial tree plantations (*hutan tanaman industri*, or HTI) since the late-1980s with the aim of establishing a sustainable source of fiber for the rapidly growing pulp industry (Groome Poyry 1993). To date, the Forestry Department has distributed 23 pulpwood plantation licenses covering an aggregate area of 4.3 million hectares, and approximately 1.1 million hectares has been planted. Most of Indonesia's pulp producers are planting their HTI sites with fast-growing *Acacia* species, which can be harvested in 7-8 years.

In spite of the substantial area planted, the development of HTI pulpwood plantations in Indonesia has lagged far behind the expansion of processing capacity in

the nation's pulp and paper industries (Cosalter 1998). All of Indonesia's pulp mills have been installed several years before supporting plantations have come online, with the single exception of PT Tanjung Enim Lestari's pulp plant in South Sumatra. Of the 100 million m³ of wood that pulp producers consumed between 1988 and 1999, less than 8 million m³ was sourced from plantations (see Barr 2000). The remainder came in the form of mixed tropical hardwoods (MTH) obtained through clearing of natural forest. If it is assumed that, on average, producers are able to obtain 110 m³ of pulpable wood from each hectare they clear, then consumption of MTH on this scale implies that Indonesia's pulp industry has accounted for the loss of approximately 835,000 hectares of natural forest over the past 12 years. It is notable that virtually all of this area was cleared to supply wood to four large mills; and that a single mill -- Indah Kiat Pulp & Paper owned by Sinar Mas/APP -- accounted for over one-third of the total area of natural forest lost.

A major factor encouraging pulp and paper producers to invest in new processing capacity without first bringing plantations online has been the Indonesian government's readiness to make large tracts of forest available for clear-cutting. Since the Ministry of Forestry initiated the HTI program in the 1980s, it has allowed license-holders to use at minimal cost the trees cleared from their plantation sites, under a wood utilization permit (*Izin Pemanfaatan Kayu*, IPK) (Departemen Kehutanan 1991). Through the 1990s, the Ministry has also made available IPK permits for the clearing of

large forested areas slated for conversion to oil palm and other estate crops. The government's stated rationale for doing so has been to provide a temporary "bridging supply" of wood to pulp producers until their plantations are fully operational (Manurung and Kusumaningtyas 1999).² In addition, there are indications that a substantial portion of the wood consumed by Indonesian pulp producers -- perhaps as much as 40% -- comes from illegal sources (see Barr 2000). Anecdotal evidence suggests that some pulp producers regularly purchase wood from illegal harvesters in order to circumvent the payment of government royalties, and to limit both capital expenditures and risk exposure associated with plantation development.

Industry sources claim that plantations will generate an exponentially growing volume of pulpwood over the next several years, as new plantations come online and as technical improvements lead to higher yields. One industry study has projected that by 2003, total production from HTIs will quadruple from 1999 levels to reach 17 million m³, or

²The staged clearing of natural forest to provide a 'bridging supply' of fiber to Indonesia's emerging pulp industry need not be seen, a priori, to be a negative development. Indeed, many would argue that the conversion of natural forest to pulpwood plantations is a legitimate strategy to provide a launching pad for a competitive industry. What is important to recognize, however, is that the Indonesian government has allocated to the pulp industry an aggregate area of natural forest that well exceeds the industry's fiber needs if it were to pursue an efficient plantation development program (see Barr 2000). Moreover, a handful of very large-scale actors have until now enjoyed the vast majority of the benefits that have derived from the government's forest conversion policy.

approximately 70% of the industry's anticipated demand for that year (see Barr 2000). However, there are at least four compelling reasons to suggest that such projections may well prove to be overly optimistic:

First, there are widespread allegations within the industry that Indonesian plantation companies have regularly overstated the areas planted, stocking ratios, and anticipated growth rates in order to inflate their projected yields. Recipients of plantation subsidies from the government's Reforestation Fund have frequently been motivated to do so in order to obtain higher grant allocations and discounted financing than they would otherwise be entitled to (Ernst & Young 1999). Likewise, producers dependent on finance from the international investment community have had a strong incentive to project the image that they will be able to generate lowcost fiber on a sustainable basis (see Barr 2000).

Second, monoculture plantations of fast-growing tree species are vulnerable to a range of technical problems which threaten to restrict yields, especially beyond the first rotation. Most notably, these include pests, fungus, disease, and soil loss or compaction. Substantial portions of the Sinar Mas/APP and Raja Garuda Mas/APRIL groups' plantations in Riau are also being developed on peat swamps, where intensively managed silvi-cultural systems face even greater technical challenges than areas characterized by mineral soils.

Third, pulpwood plantations are susceptible to fire. This is especially the case with trees that are three years of age or

younger, as their bark is not yet fire-resistant and low-level branches will often carry fire up from the grassy understory. The catastrophic fires of 1997-1998 are estimated to have destroyed approximately 100,000 ha of planted HTIs in Sumatra and Kalimantan (ADB 1998).

Fourth, social conflicts with local communities have increasingly disrupted plantation operations, with several HTI sites being subject to arson and efforts to pull up trees after they have been planted. In many cases, local communities have taken direct actions against plantation companies in an effort to reclaim land that was forcibly seized during the Soeharto era.

FIBER DEFICITS AT THE MILL LEVEL

Indonesia's two largest pulp mills are PT Indah Kiat Pulp & Paper, owned by the Sinar Mas/APP Group, and PT Riau Andalan Pulp & Paper, owned by the Raja Garuda Mas/APRIL Group. The two mills are located in the central Sumatran province of Riau, and together they account for 60% of Indonesia's pulp processing capacity. Analysis of these companies' plantation programs and projected wood needs suggests that both mills face large fiber supply deficits in the next 5-7 years, and possibly well beyond.

PT Indah Kiat Pulp & Paper

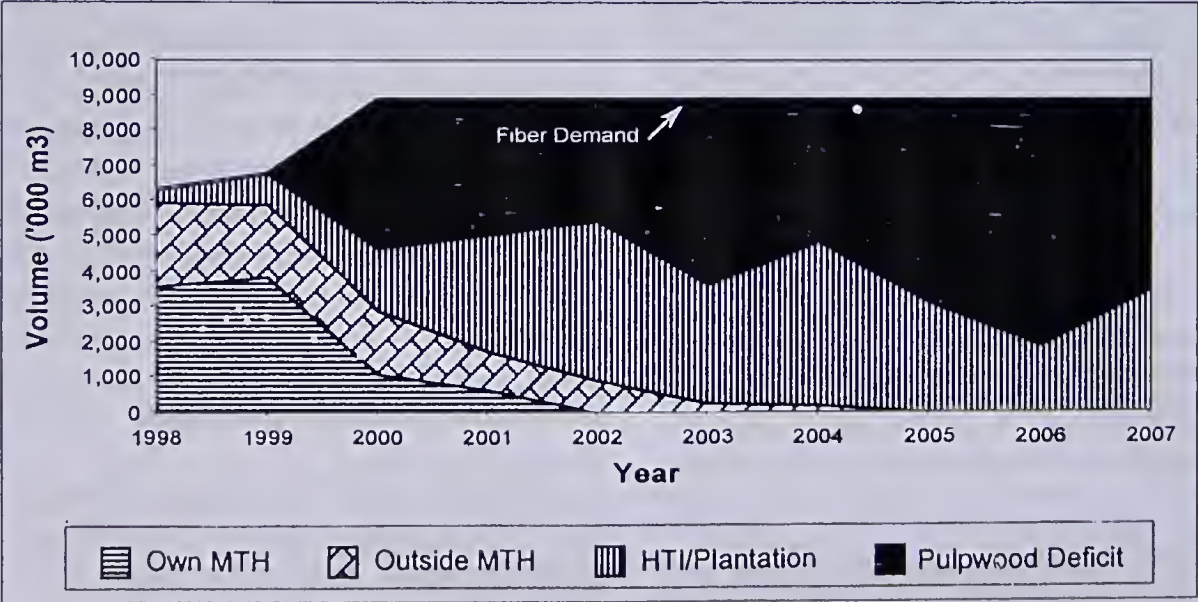
Indah Kiat is the largest subsidiary of Asia Pulp & Paper, the Sinar Mas Group's Singapore-based holding company. Since 1989, Indah Kiat has expanded its pulp production capacity from 120,000 tonnes

to 1.7 million tonnes per annum (PT Indah Kiat, 1999). It currently accounts for 77% of APP's pulp production capacity and over 40% of Indonesia's overall pulp output. In 2000, the mill consumed an estimated 9.0 million cubic meters (m3) of wood – or roughly one-third of Indonesia's legal wood supply (Spek 2000). Thus far, the bulk of Indah Kiat's raw materials have been mixed tropical hardwoods (MTH) purchased at cost from PT Arara Abadi, an affiliated company which holds a 300,000 ha plantation concession permit (PT Indah Kiat 1999). The company has also purchased substantial volumes of MTH from a range of third-party suppliers. Industry analysts have projected, however, that MTH supplies at Arara Abadi will be exhausted by 2002 and that external supplies of legally harvestable MTH in Riau will run out by 2005 (see Barr 2000).

Since the mid-1980s, Arara Abadi has taken steps to develop a pulpwood plantation that can supply Indah Kiat's fiber needs on a sustainable basis over the long term. The company's net plantable area is 217,000 ha, and through 1999, the cumulative area planted in *Acacia mangium* had reached 160,000 ha (PT Indah Kiat 1999). Annual area planted has varied considerably over the past several years, ranging from a low of 10,000 ha in 1993 to a high of just under 27,000 ha in 1997 (Spek 2000). Planting is believed to have slowed considerably in 1998 and 1999, dropping to 18,000 ha and 11,000 ha, respectively. Assuming a mean annual increment of 25 m3/ha/yr and a 7-8 year rotation, the annual volume harvested from Arara Abadi's plantation can be expected to grow from 1.3 million m3 in 2000 to 4.4 million m3 in 2005. As Figure 1 shows, this latter volume amounts

Figure 1

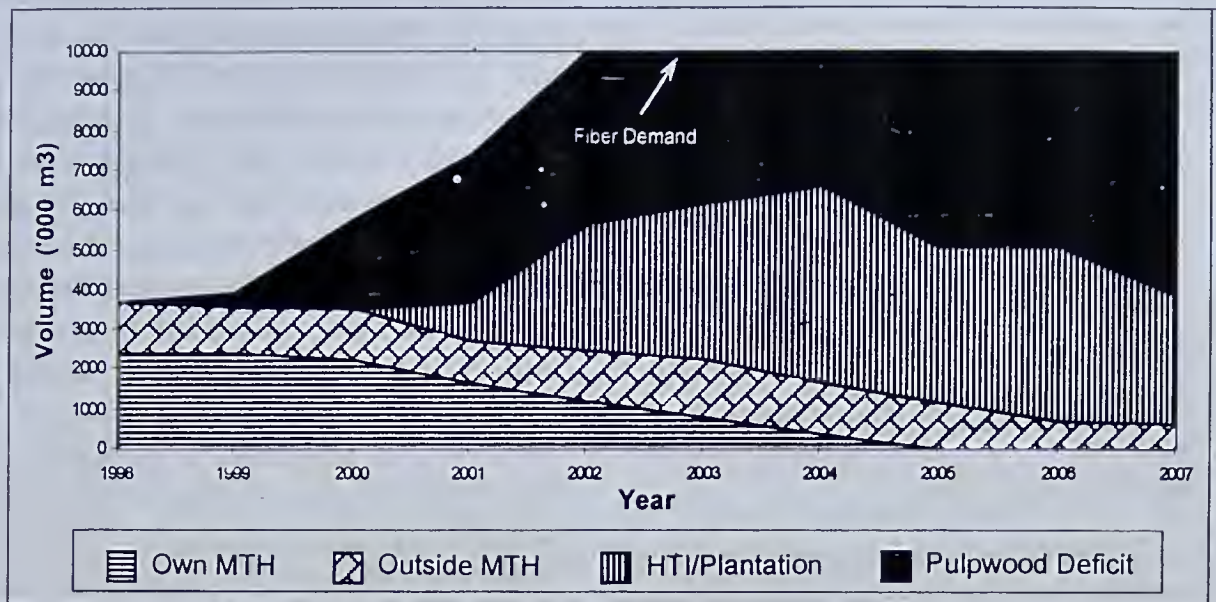
PT INDAH KIAT PULP & PAPER: PROJECTED WOOD VOLUMES BY SOURCE, 1998-2007



Source: Spek (2000) for HTI figures and 1998-1999 MTH figures. See Barr (2000) for MTH figures.

Figure 2

**PT RIAU ANDALAN PULP & PAPER: PROJECTED WOOD VOLUMES
BY SOURCE, 1998-2007**



Source: HTI and fiber demand figures derived from data presented in APRIL (2000). See Barr (2000) for MTH figures.

to roughly 50% of the mill's fiber needs at that point. In 2006 and 2007, the volume of wood coming from the plantation is expected to drop, being that the areas planted in 1998 and 1999 had declined from previous years (Spek 2000). In facing such a substantial fiber shortfall from Arara Abadi's plantation, Indah Kiat has increasingly few options for filling the deficit other than to ship in a growing portion of its wood from other provinces in Indonesia or possibly from overseas.

PT Riau Andalan Pulp & Paper

Riau Andalan Pulp & Paper (RAPP), which began operating in 1995, has recently surpassed Indah Kiat to become Indonesia's largest pulp producer. Following the recent installation of a 2-phase

second processing line, the mill's pulp production capacity is now 2.0 million tonnes per annum, which effectively requires 9.5 million m³ of wood per year (*Paperloop.com* 1 June 2001). Through 2000, all of the mill's fiber had been mixed tropical hardwoods obtained through the clearing of natural forest (APRIL 2000). Roughly 80% of this has come from the company's 280,500 ha HTI concession site, which is located near the mill in Riau. Much of the remainder has come from an affiliated company's plantation development project 400 km to the north of the mill.

Like Sinar Mas/APP, the Raja Garuda Mas/APRIL group has been moving aggressively to bring largescale pulpwood plantations online. RAPP reportedly has access to 195,000 ha of net plantable

area at its HTI site; 85,000 ha at plantation sites held by associated and joint venture companies; and 20,000 ha managed by nearby communities as part of an out-grower scheme (APRIL 2000). The company claims that through the end of 2000, the cumulative area planted at all sites had reached 151,000 ha (APRIL 2001). APRIL reports that annual planting at all sites was 28,300 ha in 1997; 22,400 ha in 1998; 24,900 ha in 1999; and 18,700 ha in 2000. The group projects that the mean annual increment (MAI) for these sites will average 30 m³/ha/yr, for a yield of 210 m³/ha over a 7-year harvesting cycle.

Figure 2 presents a conservative estimation of Riau Andalan Pulp & Paper's fiber supply sources for the period 1998-2007. The data presented assume that the areas APRIL claims to have planted will be fully available for harvest at the end of a 7-year rotation; and that the average MAI for all sites is 25 m³/ha/yr, for a yield of 175 m³/ha. Moreover, it is assumed that legally-available sources of mixed tropical hardwood will be exhausted at RAPP's concession and nearby sites by 2005.

Based on the assumptions described, the volume of fiber that RAPP obtains from plantation-grown pulpwood is projected to rise from the 580,000 m³ consumed in 2000 to approximately 5.0 million in 2004. At that point, plantation-grown *Acacia* will supply approximately 50% of the mill's total fiber needs, assuming that the mill is running at full capacity. In the years that follow, however, the portion of the mill's fiber that

comes from HTIs is projected to decline, due to the decrease in areas planted during 1998-2000. In 2007, it is anticipated that the volume of mature *Acacia* available for harvest will be 3.3 million m³, at which point the company's plantation program will supply roughly 35% of the 9.5 million m³ of fiber then expected to be consumed by the mill. With legal supplies of MTH in Riau dwindling, these projections suggests that RAPP is already facing a substantial fiber supply deficit, and will increasingly be forced to obtain wood from outside of the province if it is committed to operating in a fully legal manner. Doing so will likely entail considerably higher raw material costs than the company has paid until now.

RAPP's longer-term plantation projections are even more difficult to reconcile. APRIL claims that annual planting at all sites will effectively double this year, climbing from 18,700 ha in 2000 to 37,300 ha in 2001 (APRIL 2001). Moreover, the group projects that the area planted in 2002 will reach 48,000 ha and remain at that level each year thereafter. APRIL has offered no clear explanation for how such significant increases in area planted will be achieved in such a short space of time, and many plantation experts are skeptical that the group will be able to meet these targets.

GOVERNMENT SUBSIDIES AND WEAK FINANCIAL REGULATIONS

With substantial fiber supply deficits looming, Indonesia's largest pulp mills are facing higher operating costs and,

arguably, considerable financial risks. Indonesian pulp and paper producers were motivated to invest large amounts of capital in high-risk projects because much of the costs involved have been borne by others. In particular, the Government of Indonesia has provided numerous capital subsidies for pulp and paper projects, which have enabled producers to sharply discount their investment and production costs.³ Major subsidies extended by the government have included:

- ❑ *Cheap raw material supplies:* As a matter of policy, the government has made available to pulp producers large volumes of mixed tropical hardwoods, for which it extracts relatively minimal royalty payments (currently less than US\$2.50 per m³). Through clearing of natural forest at affiliated HTI concession sites, Indonesian pulp producers have obtained the bulk of their fiber at prices that are only slightly above the cost of harvesting the wood and transporting it to the mill. They have also been able to purchase large volumes of pulpwood from IPK license-holders and illegal harvesters at prices that are

well below the wood's actual stumpage value.

- ❑ *Plantation subsidies:* Firms establishing pulpwood plantations received over US\$417 million in discounted finance and equity capital during 1993/94-1997/98 through allocations from the government's Reforestation Fund (*Dana Reboisasi*, DR) (Ernst & Young 1999).
- ❑ *Soft loans from state banks:* During Soeharto's New Order period, state-owned banks often provided loans with discounted interest rates and relaxed terms of repayment to firms linked to government elites. Such loans were frequently based on political directive rather than prudential calculations of risk, and often involved the provision of little or no collateral on the part of the borrowing firms (Delhaise 1998; Cole and Slade 1996).
- ❑ *Off-budget capital allocations:* Under Soeharto, companies tied to senior officials often had access to capital grants and discounted loans from government-managed discretionary funds, including the use of DR monies for projects unrelated to reforestation (Ascher 1998; Ernst & Young 1999).
- ❑ *Favorable tax laws.* Government regulations have allowed companies to accelerate depreciation on fixed capital assets for tax purposes. This has allowed pulp and paper producers to reduce or eliminate their tax liabilities in the years immediately following large capital investments. In doing so, it has encouraged some to engage in a process of perpetual ex-

³It should be noted that subsidies are not intrinsically perverse. Indeed, governments in most countries routinely use subsidies to encourage investment in strategic industries or sectors that provide socially-desirable goods or services, such as transportation or education. The critical point in the sections that follow is not to condemn subsidies to Indonesia's pulp and paper industries as such, but rather to emphasize the role that government subsidies have played in encouraging the country's pulp and paper producers to engage in high-risk practices.

pansion, as this allows them to continually defer paying to 30% of their corporate profits in taxes.⁴

Indirectly, the Soeharto government's weak regulation of Indonesia's financial sector has allowed pulp and paper producers to reduce their capital costs even further. Prior to the 1997 financial crisis, each of the major conglomerates owned its own bank and some regularly violated the government's legal lending limits for capital loans to related parties. Moreover, the illegal use of financial "mark-up" practices -- that is, the artificial inflation of the cost of an investment project -- has allowed some pulp and paper producers to secure much larger amounts of financing for their projects than they have actually needed (see Barr 2000).⁵ By obtaining funds from banks and investors at the marked-up level, the owners of an expanding pulp or paper company are able to reduce the amount of capital that they, themselves, commit to the project. In cases where the mark-up is particularly

high, companies are sometimes able to avoid committing any of their own funds and, instead, to emerge from the investment process with finance to spare. Such excess funds are frequently injected into the new mills in the form of working capital to generate what is known in the industry as "profit before operating".

ACCESS TO INTERNATIONAL FINANCE

International financial institutions have played a critical role in facilitating the rapid expansion in Indonesia's pulp and paper industry. Offshore investment banks have channeled much of the US\$12 billion invested in these industries through direct capital loans or by orchestrating bond offerings that tap into North American and European debt markets. They have also financed investments made by Indonesian pulp and paper conglomerates in other sectors and in other countries, particularly China.

Since 1994, the Sinar Mas Group alone has raised over US\$13 billion for investments in pulp and paper projects in Indonesia and China through its holding company Asia Pulp & Paper. The Raja Garuda Mas Group has, likewise, borrowed over US\$2 billion through Asia Pacific Resources International, Ltd (APRIL) during the same period. The two groups have also obtained investment funds by offering equity shares in APP and APRIL on the New York Stock Exchange.

The relative ease with which APP and APRIL have been able to obtain offshore financing underscores the fact that the international investment community

⁴The Sinar Mas/APP group has used this strategy to enable PT Indah Kiat Pulp & Paper, Indonesia's largest pulp producer, to avoid paying any corporate income tax during 1989-1999.

⁵There has been strong speculation among financial analysts and industry sources that the relatively high costs of the Kiani Kertas & Tanjung Enim Lestari pulp mills -- each of which was roughly 75% above the industry's intermediate costs of US\$1,500 per tonne of capacity -- reflect substantial mark-ups during the investment process (*Pulp & Paper Online*, 28 September 1998). If these reports are true, it suggests that these mills involved mark-ups that may have been as high as US\$577 million and US\$540 million, respectively (see Barr 2000).

has regularly underestimated or ignored the substantial risks associated with large-scale pulp and paper projects in Indonesia. To a significant degree, this underestimation of financial risk can be attributed to two components of the process through which investment capital is channeled to high-growth industries in much of the developing world: (1) weak due diligence practices, and (2) loan guarantees provided by industrial-country export credit agencies (ECAs).

Weak due diligence: In raising funds through bond issues, pulp and paper companies work with investment banks. The underwriting bank is responsible for evaluating the project that will be supported by the funds generated from the bond, and for providing investors with a prospectus that offers the bank's assessment of the likelihood that the bond will be repaid with interest when it comes due. The information presented in a bank's due diligence report plays a critical role in shaping investor decisions regarding whether or not to subscribe to a particular company's bond offering. Interviews with investment bankers involved in financing Indonesian pulp and paper projects suggest that the due diligence process has rarely involved rigorous analysis of the large mills, raw material supplies (see Barr 2000).

According to one bank officer who has played an active role in organizing bond offerings for Asia Pulp & Paper, "Back in 1994-95, we finance people but didn't really discuss wood supply because there was plenty of it. It's only now that we've started talking about it

-- because suddenly wood is a problem."⁶ Even as the Sumatra mills face looming fiber deficits, however, the major banks that underwrote APP and APRIL's rapid expansion continue to base their due diligence reports largely on information provided by the companies, themselves. Neither the investment banks nor the major regulatory agencies, such as the US Securities and Exchange Commission, have required independent audits of these companies' plantation development programs, including assessments of areas planted, growth rates, and projected yields. The fundamental lack of rigor in the due diligence process has been particularly negligent to the extent that Indonesian pulp producers are dependent upon illegally-harvested wood.

ECA loan guarantees: Loan guarantees provided by northern country export credit agencies have often played a critical role in securing project finance for high-cost investments, such as pulp and paper mills (Fried and Soentoro 1999; Stephens 1999). On the one hand, they encourage commercial banks to support such projects with capital loans, by reducing or eliminating the banks' risk exposure. On the other hand, ECA guarantees reduce the finance costs associated with capital-intensive projects, which is frequently essential for attracting investors. In both respects, the loan guarantees effectively promote investments in financially risky projects (Fried and Soentoro 1999). In short, the ECA agrees to bear the cost if the project

⁶Confidential interview, Singapore, 1 February 2000.

fails. Many ECAs, however, routinely pass on the risks associated with such investments to the importing-country government. They do so by requiring the government to sign a counter-guarantee before the ECA will provide the initial loan guarantees that are often required for large investment projects to move forward. With such counter-guarantees in place, the risks associated with private investments are ultimately borne by public institutions. A recent study of 33 large investment projects in Indonesia during the period 1994-1997 found that the country's pulp and paper sector has been a prime beneficiary of ECA loan guarantees, surpassed only by the country's power sector (Fried and Soentoro 1999).

The combined effect of weak due diligence practices and ECA loan guarantees has been to place undue structural pressures on Indonesia's forests by directing capital into pulp and paper capacity expansions at costs that do not fully reflect the financial risks involved. The financial risks associated with large Indonesian mill projects are highlighted by the suspension of production at the US\$ 600 million Indorayon pulp and rayon mill in North Sumatera (Fung 1999). Owned by the Raja Garuda Mas/APRIL Group, Indorayon was forced to halt production in late-1998 following disputes with communities located near the mill.

FINANCIAL CRISIS AND CORPORATE DEBT RESOLUTION

The fact that Indonesian pulp and paper producers had borrowed heavily to fund their capacity expansions meant

that many of these companies were particularly vulnerable when the financial crisis hit the region in 1997. This was especially the case for companies carrying substantial loads of dollar-denominated debt, which included each of the industry's major producers. Indonesia's five largest producer groups held pulp and paper-related debts to offshore creditors (including those allocated for investments in China) totaling just under US\$13 billion through the end of 1999. The Sinar Mas/APP Group held by far the largest portion of this.

In addition to their large offshore obligations, Indonesia's pulp and paper groups have over US\$2.1 billion in non-performing loans that had been transferred to the Indonesian Bank Restructuring Agency (IBRA) through January 1999 (Barr et al. 1999). Four companies operating specifically in the pulp and paper sector owe just over one-third of this total -- US\$728 million. Bob Hasan's Kiani Kertas mill has the largest outstanding debt. It owes IBRA US\$370 million and ranks ninth on the agency's list of over 4,000 corporate debtors.

Despite the enormous debt loads they carried when the financial crisis struck, none of Indonesia's major pulp and paper producers has been forced to halt its operations due to bankruptcy. Paradoxically, these companies' ability to continue operating has been due, in no small part, to the fact that they owe so much money. Indeed, many domestic and international financial institutions have taken the view that the country's largest mills are too big to close. IBRA, for instance, has allowed Kiani Kertas

to continue running its pulp mill in spite of the fact that the company is technically insolvent. Officials at the bank restructuring agency have claimed that keeping the mill in business is a necessary condition for IBRA to recoup close to Rp12 trillion (US\$1.8 billion at Rp 6,700/US\$) in Bank Indonesia liquidity credits from Bob Hasan's Kalimantan Group (*Kompas*, 8 December 1999).

In the case of the Raja Garuda Mas/APRIL Group, both IBRA and international creditors have linked debt rescheduling to new capacity expansions at the group's pulp and paper facilities. Foreign creditors have rescheduled US\$800 million of the group's debt, while IBRA and two of the state banks that IBRA is recapitalizing have allowed APRIL to delay payments on US\$1.3 billion in outstanding loans, effectively giving the group a US\$165 million capital subsidy (*Jakarta Post*, 20 September 1999; *Kompas*, 13 April 2000). In both cases, these arrangements were explicitly tied to APRIL's expanding the capacity of its PT Riaupulp facility from 750,000 to 1.3 million tonnes of pulp per year.⁷ The stated rationale is that APRIL will be able to repay its debts faster if it is able to install new production lines. Financial analysts have argued that it is an improper use of public funds to allow APRIL to defer its debt payments to IBRA when the group still has substantial capital holdings off-

shore, which could be sold to cover the group's outstanding obligations (*Kompas*, 13 April 2000).

Through the first three years of the financial crisis, the Sinar Mas/APP Group continued to borrow heavily in international debt markets to stay current on the group's existing obligations. During 1998-1999, APP assumed over US\$2.9 billion in new interest-bearing debt, with much of this reportedly being used to support the group's pulp and paper expansions in China (APP 2000). Indeed, until the group's spectacular financial collapse in late-2000, Sinar Mas/APP stood alone as the only major Indonesia-based conglomerate that was able to access international financial markets more or less without interruption since the crisis began. The international investment community was willing to issue large amounts of new debt to pay off old debt partly because there was a general feeling that too much money has been put into Asia Pulp & Paper to let it fail. Banks were also motivated to lend new funds to Sinar Mas/APP because the group was willing to pay high interest rates on short-term debt (Webb 2001a).

The fact that the Sinar Mas/APP Group borrowed over US\$13 billion to carry out its pulp and paper expansion strategy has raised enormous moral hazard problems, both for the Government of Indonesia and for international investors. This became readily apparent in late-2000 when Asia Pulp & Paper was unable to secure SEC approval for a proposed US\$2.0 billion bond exchange offer (Linebaugh 2000). The group's en-

⁷With the recent completion of Phase 2 of the company's second pulp line, it now appears that APRIL has quietly used at least a portion of these funds to finance the mill's further expansion to 2.0 million tonnes per annum (*Paperloop.com*, 1 June 2001).

suing liquidity crisis accelerated an already precipitous decline in APP's share value and led Sinar Mas/APP to suspend all debt payments in January 2001 (Webb 2001a). One significant effect of APP's financial collapse is that the Indonesian government was effectively forced to guarantee US\$1.3 billion in related-party loans from Sinar Mas-owned Bank Internasional Indonesia (BII). Since 1999, the government had injected close to US\$900 million into BII as part of the country's bank recapitalization program (Sender 1999). Financial sector policymakers reasoned that to allow BII to default on the large related party loans still on its books would almost certainly result in the collapse of BII and thereby trigger another national banking crisis. To collateralize the government's loan guarantee, Sinar Mas has been required to pledge assets valued at US\$1.9 billion to IBRA.

Financial analysts have voiced concerns that assets pledged by the group may have included assets that are already pledged to offshore bond-holders, suggesting that some creditors are unlikely to be paid (Webb 2001b). Concerns have also been raised that the group's plantation companies have been pledged to IBRA, in spite of the fact that these firms have little real value: they do not own the land on which they operate, and they have long-term contracts to sell their wood essentially at cost to Sinar Mas's pulp mills. While resolution of Sinar Mas/APP's financial default will almost certainly take several years, there are strong indications that the debt workout process will put added pressures on the group to continue run-

ning Indah Kiat and its other mills at capacity in order to maintain cash flow. At the same time, the group's heavy debts further undermine any incentives that Sinar Mas might otherwise have to make long-term investments in sustainability. In this way, the costs associated with restructuring the group's debts can be calculated not just in financial terms, but also in terms of added pressure on Indonesia's forests.

POLICY OPTIONS TO PROMOTE SUSTAINABILITY

By any account, the high capital costs associated with pulp and paper processing suggests that it will be difficult to alleviate the structural pressures that Indonesia's existing mills place on the country's remaining natural forests. However, there are steps that can be taken to enforce the adoption of more sustainable forest management practices on the part of the industry. Options that government policymakers and financial institutions might consider include:

1. A moratorium on new pulp and paper processing capacity expansions in Indonesia until full and public audits of the companies' pulp wood supply plans are carried out;
2. Elimination of the wood supply subsidy to Indonesia's pulp industry, by raising royalties and fees to reflect the full stumpage value of the wood;
3. Enforcement of the Indonesian government's 1998 moratorium on the allocation of new forest conversion licenses, in accordance with the gov-

- ernment's existing commitments to the IMF and the Consultative Group on Indonesia. This moratorium could be extended to include restrictions on new harvesting permits for existing forest concessions slated for conversion;
4. Introduction of a credible independent monitoring program of plantation development (including the use of aerial or satellite images) and sanctions provided for companies that fail to meet agreed-upon sustainability targets; and,
 5. Enforcement of improved due diligence practices on the part of financial institutions funding pulp and paper projects, so as to ensure that the financial risks associated with these projects are fully assessed and that finance is not being allocated to projects involved of illegal practices, including use of illegally-obtained raw materials.

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Building Government-Donor Co-ordination to Implement Forestry Reforms*

Neil Scotland and Boen Purnama

INTRODUCTION

RECENT research into the delivery and impact of aid has revealed that a heavy donor presence in a single, strategically significant sector such as the forest sector in Indonesia can disrupt the emergence of co-ordinated policy and programme implementation. The confusing (and sometimes contradictory) agendas and messages of a large number of small programmes and stand-alone projects are prominent among a number of factors which can undermine the effectiveness of aid. Large numbers of poorly co-ordinated donor projects pursuing specific isolated goals are an inefficient way of addressing the broadly similar concerns which draw donors into a sector, and can be detrimental to cohesive government policy. They are also costly to manage and administer, and rarely produce a sustainable impact.

There is broad agreement among donors that aid delivery needs to be better co-ordinated and set within a more comprehensive country strategy. The World Bank first took steps towards this goal in 1998 with the introduction of the Comprehensive Development Framework (CDF) and has continued this through preparation of Poverty Reduction Strategies (PRS) (Foster 2000). The European Commission has prepared a code of conduct for forest-related aid interventions which stresses the need for co-ordination, coherence and complementarity (European Commission 2000). In December 2000 the United Kingdom Department for International Development (DFID) published a White Paper on International Development which sets out DFID's broad policy objectives, including a high priority on improving the effectiveness of aid (DFID, 2000).

Forest sector donors and the Indonesian government have taken significant steps towards closer co-ordination since the formation of the Interdepartmental Committee on Forests (IDCF) and the Donor Forum on Forests (DFF) in June 2000. This paper describes how this closer co-

*The opinions in this paper are the authors' alone and do not necessarily represent the official position of either DFID or the Indonesian Ministry of Forestry. Comments and advice provided by Yvan Biot, DFID Indonesia Forestry Programme Co-ordinator, are gratefully acknowledged by the authors.

ordination has helped to determine a clearer policy agenda for post-New Order forest management in Indonesia, and examines possible options for closer government-donor and donor-donor co-ordination as this policy agenda is further refined and implemented.

THE EMERGING FOREST SECTOR POLICY AGENDA

The Interdepartmental Committee on Forestry (IDCF) is chaired by the Coordinating Minister for Economic Affairs and draws a membership from all departments where policy may have an impact on the forest estate. These include the departments of agriculture, environment, defence, the national police, justice and human rights, energy and mineral resources, and industry and trade. Through an ongoing process of negotiation and discussion with donors and civil society, in the context of the Consultative Group on Indonesia (CGI) meetings, the IDCF has identified 12 key objectives which form the basis of the emerging consensus on sector policy.

Key Objectives

The forest sector policy agenda encompasses a blend of short-term and long-term actions required to bring about a new paradigm in forest management which balances the requirements of industry with the needs of local communities and reflects the full range of economic, ecological and social values of forests.

In the short-term, important measures include action to (1) reduce illegal logging, (2) tackle the problem of recurrent forest fires, (3) the imposition of a moratorium

on natural forest conversion, (4) restructuring of the wood-processing industry, (5) including closure of indebted processing plant under control of the Indonesian Bank Restructuring Agency (IBRA), and (6) conduct an inventory of the remaining forest resource.

In the longer term, (7) implementation of a National Forest Programme through an iterative policy and planning process will address issues such as (8) decentralised forest management, (9) forest management regulations, (10) a reforestation programme, and (11) land tenure arrangements in the forest estate, (12) timber royalties will also be reviewed.

As a consensus emerges on policy, and pressure grows for identifiable progress towards reversing rapid forest degradation, the time is now ripe for looking at ways to improve the efficiency of donor-donor, donor-government, and donor-government-civil society co-operation and thus improve the effectiveness of aid flowing into the sector. A recent EC-led effort to identify outputs and verifiable indicators for each of the 12 commitments has laid the foundations for the definition of realistic, implementable actions that could attract donor support. This, plus moves afoot to revamp the IDCF, may provide a means of testing the effectiveness of more co-ordinated donor support.

IMPROVING AID EFFECTIVENESS

Experience shows that donor project initiatives almost always prove unsustainable after project termination. Reasons for poor sustainability include the prevalence of donor-driven projects, and the lack of national ownership. There

is frequently a feeling that cooperation is driven by donor agendas and not by host country demand. Often projects and programmes do not entirely match the needs and the socio-economic and political conditions of the host country. In this regard it is important for host countries to develop sound co-operation programmes designed to satisfy their own needs. Unless the sense of ownership is carefully and systematically nurtured, fruitful co-operation will be hard to come by.

Related to the problem of ownership is that projects and programmes often do not link directly to routine activities. This results in the donor programme being alien to the host institution and leads to the improper assignment of counterparts. Strong links with the routine work of host institutions will help to ensure the effectiveness of co-operation and the continuation of work after

projects have been terminated. Links to routine work will also help to ensure from the outset that donor projects are perceived to be temporary assistance to the actual work that organisations must carry out, helping to ensure the continuity of activities and an immediate and recognisable improvement in local capacity.

There are a variety of mechanisms to deliver aid which, if used correctly, can result in host country leadership and ownership of foreign assistance (Table 1). Efforts to develop closer co-ordination around the IDCF suggest that the most appropriate template for forestry aid in Indonesia is sector earmarked assistance, with sector specific conditions agreed between government and donors, funds earmarked for specific activities within the forest sector, and budgeting and accountability ideally using the appropriate government systems.

Table 1

MAIN FORMS OF AID DELIVERY

Mechanism	Conditionality	Earmarking	Accountability
Structural adjustment	Macro	None	None
General budget support	Macro and budget	None	Government systems
Sector budget support	Sectoral	To sector	Government systems
Sector earmarked	Sectoral	Within sector	Government systems
Government projects	Sector and Project	Sector and project	Government systems
Donor projects	None	Project	Donor

Source: Foster (2001)

SECTOR-WIDE SUPPORT

The Sector-wide approach to aid delivery refers to a system where donors avoid an individualistic approach to aid delivery, work closely with host governments to draft appropriate policies, avoid a coercive approach to policy negotiations, and work together in a single, coherent programme under host government leadership.

Under a sector-wide approach all significant funding for the sector supports a single sector policy and expenditure programme, under government leadership, adopting common approaches across the sector, and progressing (where possible) to rely on government procedures to disburse and account for all funds (Foster 2000). There is commonly a process of adjustment towards a sector-wide approach through which existing stand-alone

projects are brought into line with the agreed sector-wide strategy and support is increased for sector-wide reforms.

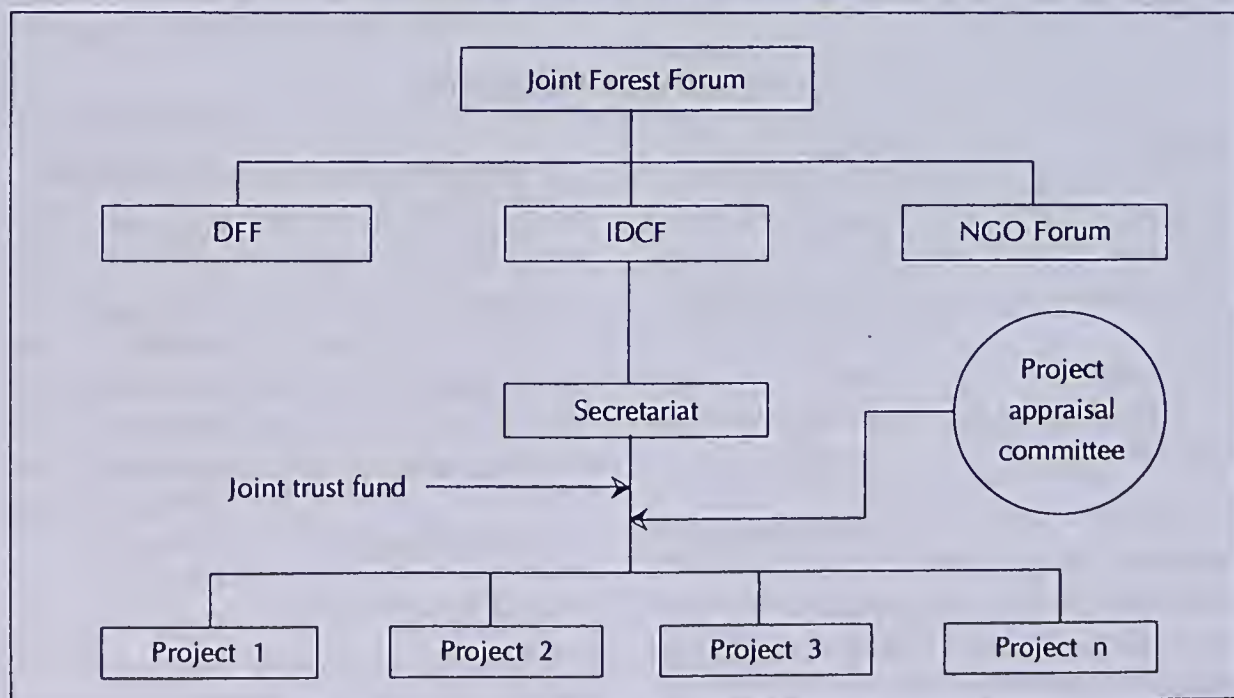
THE IDCF SECRETARIAT: AN OPPORTUNITY?

The recent process of negotiation and agreement over the forestry sector policy agenda, and the creation of an informal IDCF-DFF forum, reflect very closely the instigation of sector-wide approaches elsewhere. Plans to create an executive agency to support the IDCF now offer a mechanism around which to test the applicability of demand-driven co-ordinated donor support.

Figure 1 presents one possible model for co-ordination of donor support around a jointly agreed policy agenda. A Joint Forests Forum groups the IDCF, the donor

Figure 1

IDCF AND DONOR CO-ORDINATION



forum and an NGO forum. With the support of an executive agency (secretariat), these groups will set and review a strategic plan for implementing forest sector reforms and design projects and initiatives to meet these goals. A decision on funding for these projects will be taken by a project appraisal committee with a membership reflecting different interest groups. Donor support could be made available in a variety of forms, including the provision of funds to be issued at the discretion of the project appraisal committee, or through the provision of posted advisory services and technical support. This model reflects the sector earmarked aid described above.

CONSTRAINTS TO THE DEVELOPMENT OF A SECTOR-WIDE APPROACH

Sector-wide co-ordination provides a forum in which policy issues can be discussed and problems jointly reviewed, leading to greater realism in the planning process. Sector-wide co-operation also draws governments and donors into a focus on selected priorities in the sector, with a greater emphasis on the links between policy and implementation. If correctly designed, it can also help to build local planning, implementation and budgeting capacity.

There has been evidence of success in sector-wide support in the health and education sectors in Africa. However, the applicability of the approach to Indonesia and forestry is less certain. Health and education are concerned primarily with service delivery and public expenditure, whereas government interests in forestry

revolve mainly around policy and regulation. Furthermore, policy which exerts the greatest influence on the sector is often set by ministries without a direct interest in forests (e.g., mining, agriculture, trade and industry, environment), which further limits the impact of donor assistance, even in a co-ordinated inter-sectoral forum.

A low dependence on aid due both to the nature of the sector (which generates vast state revenues) and to Indonesia's middle income status mean that donors play only a small role, focused mainly on adding value to routine government spending through provision of funds with which to experiment and test better ways of delivering services and implementing policies.

Furthermore, the government is undergoing a rapid process of change (democratization, downsizing, decentralization, and revision of roles and responsibilities), and effective medium-term engagement, relying on host government leadership, through a period of such uncertainty can by no means be guaranteed.

A question also hangs over the adequacy of government mechanisms to ensure efficient disbursement of funds and adequate accountability over budgeting and expenditure, meaning that many donors would be reluctant to rely entirely on government financial systems -- an essential aspect of the approach. It would probably be necessary to agree to transitional management arrangement until such time as an efficient and transparent financial management and disbursement system has been agreed between government and donors.

Finally, as roles and responsibilities of central government are being redefined, new actors appear on the horizon whose inputs into a sector-wide approach need to be considered (i.e., local government, non-government organizations, and the private sector).

CONCLUSIONS

Poor donor-GOI-civil society co-ordination mechanisms have contributed to reduced effectiveness of aid in the forestry sector in Indonesia. The CGI process has created new conditions that have fostered donor-GOI-civil society dialogue, and given support to the emergence of a common forest policy. The sector-wide approach to aid delivery has the potential to build on these recent advances.

While there are reasons to doubt the full-scale applicability of sector-wide approaches to the forestry sector in Indonesia, there is also compelling evidence to suggest that there are gains to be made through increased donor co-ordination, and a closer and more demand-driven relationship with the host country, ideally led by the host government in collaboration with civil society, local government, and the private sector.

With this in mind the advances made in joint IDCF-DFF work, and in the design of an executive agency for the IDCF are steps in the right direction. Experience with sector-wide approaches offers an insight into both the advantages and disadvantages of coordinated donor support to a common set of objectives, but the pre-conditions required for success need to be weighed against the specific circumstances found in Indonesia.

Recent experience suggests that future policy development and project implementation would benefit greatly from closer co-ordination between government, donors and civil society. No blue-print for co-ordination exists and any system would need to be tailored to suit the forest sector in Indonesia. A gathering of support around a revised IDCF, including a civil society forum and an executive agency, would offer a way to test the applicability of demand-driven co-ordinated donor support within a limited field, and if successful, lessons learned from the experience may help to build a strengthened medium-term framework for more effective, co-ordinated aid delivery.

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Indonesian Forestry from the World Bank's Point of View

Thomas E. Walton

WHAT NEEDS TO BE DONE?

IF INDONESIA wants to keep its forests, it needs a new approach to managing them -- a new National Forest Program (NFP). The program should be developed in a way that invites the participation of all the agencies and stakeholders concerned, and gains their commitment and support. It must be based on a shared vision for the forests and should contain an overall strategy, a policy reform agenda, and specific action steps. Moreover, it needs to be supplemented with a number of short-term actions that will retard the alarming rate of forest loss, avoid fore-closing additional options, and symbolize the country's will to move toward sustainable forest management.

The details should be left to the stakeholders, but whatever they agree on will surely need to include at least these ten elements:

- ❑ An interagency, multi-stakeholder body to advise the Government on forest policy and oversee the NFP process.
- ❑ A freeze on conversion of natural forest for any purpose until the NFP is in place and a transparent mechanism for forest land-use decisions is functioning.
- ❑ A system to broaden and guarantee access to forest benefits for forest dwellers and local communities.
- ❑ Environmental education and awareness programs.
- ❑ Incentives and penalties to improve forest concession management, and an independent and transparent inspection mechanism to evaluate outcomes.
- ❑ Enforcement of the laws concerning illegal logging, burning and encroachment, and aggressive disciplinary action in cases of corruption in forest management.
- ❑ Restructuring the wood processing industry so that its raw material needs are balanced with sustainable yield of the forests, supplemented by plantation timber. An open market for logs would allow market forces to work in balancing supply and demand.
- ❑ Renewed commitment to conserving biodiversity heritage by establishing a national network of parks and protected areas that can be effectively managed.
- ❑ Aggressive replanting programs on damaged forestland, to relieve pressure on natural forest while generating rural employment and income. This should not be a program operated by central

government alone; regional government, communities, industry and NGOs all have much to contribute. Nor should it be simply reforesting timber concessions and parks; releasing deforested land from the official forest estate for community-managed agroforestry should be one element of the program.

- Clear and agreed division of responsibilities and authority among central, provincial and district government, accompanied by strong incentives and penalties, technical support and guidance to achieve sustainable forest management in the decentralized governmental structure.

The Government of Indonesia has already established the necessary inter-agency body, known as the Interdepartmental Committee on Forestry, or IDCF. The IDCF has set an agenda that would take the forestry in very much the directions just described. The agenda first

emerged as "the eight points" at the interim meeting of the Consultative Group on Indonesia (CGI) held in February 2000. It was expanded to 12 points in the action plan that was released following the October 2000 CGI (see box for summary).

WHY IS THE NEED FOR ACTION SO URGENT?

There is extreme urgency for a number of these measures, because Indonesia is losing its forest with alarming speed. The average rate of deforestation was approximately 1.8 million hectares per year between 1985 and 1997. It is probably worse in 2001. At these rates, dry lowland forest, the type most attractive for logging and among the most important for biodiversity conservation, will have essentially disappeared as viable wildlife habitat and economically useful production forest on Sumatra by 2005 and in Kalimantan by 2010. The proximate

INDONESIA'S 12-POINT FORESTRY ACTION PLAN

- | | |
|---|---|
| ● control illegal logging | ● complete forest assessment and mapping |
| ● impose temporary moratorium on natural forest conversation | ● downsize and restructure wood industries and increase their competitiveness |
| ● strengthen forest fire management capacity and implement measures to prevent and manage fires | ● implement tenurial arrangements that take into account traditional use rights and enhance the role of communities in forest management |
| ● close some heavily-indebted wood industries under control of IBRA; link link debt write-offs to capacity reduction and sustainable forestry | ● require pulp and paper and other industries intended to depend on plantations to link capacity to the availability of plantation timber |
| ● calculate the real market value of logs | ● improve forest management systems |
| ● decentralize in a manner that will enhance the sustainability of forest management | ● re-energize the process of formulating the National Forest Program |

causes are land conversions that are poorly planned (or unplanned) and executed, substandard concession management, illegal logging, and fire. Underlying causes include excess capacity in the wood processing industries, undervaluation of forests, alienation of forest communities because of past government policies, official corruption and failure of governance and the rule of law. A few examples reinforce these observations.

- ❑ An assessment of forest condition underway at the Ministry of Forestry has revealed that roughly 30% of production forest is no longer forested, as a result of conversion to other uses, poor logging practices, and fire.
- ❑ Fires originating with land clearing burned 9.7 million hectares in 1997-1998. Half of the area was forest. The total economic loss to Indonesia was approximately US\$7.8 billion, with an additional cost of \$1.4 billion in damage to the global environment. Lost biodiversity was not quantified in those estimates, so they are on the conservative side. Large plantation companies were the main perpetrators, but even government transmigration site contractors were also involved (the disastrous Million Hectare Project in Central Kalimantan is the most egregious example). Few of the companies implicated have been prosecuted.
- ❑ The annual volume of illegally cut timber substantially exceeds the annual allowable cut. Timber is being stolen from Indonesia's forest at the rate of 30 million cubic meters per year or more, compared to the officially-permitted harvest of about 25 million and the now outdated estimated sustainable yield of about 22 million. The illegal logging is big business, supported and protected by corrupt officials including military and police. The Government is losing between \$300 and \$500 million in royalty and reforestation fund revenues alone – considerably more if the asset value of the forests is considered.
- ❑ Out of 183 sawmills located around the perimeter of Kerinci Seblat National Park, 111 are unlicensed. Many are obtaining their timber illegally from the Park or from timber concessions in the buffer zone around it.
- ❑ Demand for logs grossly exceeds sustainable supply. The plymills at full capacity can consume 23 million cubic meters a year. The pulpmills at full capacity can consume an additional 23 million annually. Domestic timber demand is additional, so that annual log demand exceeds annual supply by more than twice, probably three times, with the mills at full capacity. Pulp companies have avoided requirements to plant industrial timber estates (HTI); collectively the HTI established produced less than 1 million cubic meters per year in 1998. The imbalance creates demand for illegal logs and sets the stage for collapse of the industries.
- ❑ IBRA is a major holder of forest assets and forest industry debt. Restructuring is going on without full collaboration among relevant agencies to protect the Government's interests and the production forests. Some of the pulp and paper companies are arguing

for approval of expansion plans to generate more revenue for debt service, ignoring the fact that they do not have sustainable sources of timber for even their existing mills.

- The Reforestation Fund is undercollected. The recent audit of the Reforestation Fund found that the Government lost \$2.6 billion in Reforestation Fund payments not collected and another \$800 million in improper expenditures between 1993 and 1998.
- The timber royalty rate has historically been set too low, and authorities have avoided increasing it. One estimate is that each cubic meter harvested yields \$23 in excess profit. In other words, another \$400 million per year lost to the Government when calculated on the basis of the annual allowable cut. Royalties are also undercollected, and if undercollection occurred in proportion to the undercollection of the Reforestation Fund, losses would have exceeded \$1 billion in the 1993-1998 period.
- Forest land-use decisions have typically ignored the rights and traditional use patterns of local residents. There is a long history of forced evictions and forest area closures, not only for forest concessions and plantations but also for transmigration projects and national parks. The pent-up resentment in the forest communities makes their citizens more inclined to participate in illegal logging than forest protection. Interference with concession operations and plantations is another result. An estimated Rp. 2.6 trillion was lost in theft or destruction in plantations in 1998.

THE ROLE OF THE WORLD BANK: PAST, PRESENT AND FUTURE

In its work with the Government of Indonesia in the early 1990's, the Bank was pressing for substantial institutional and policy changes in the forestry sector. It was in fact the pressure for change and the Government's unwillingness to agree that ended forestry lending in 1995, effectively interrupting the Bank's working relationship with Ministry of Forestry (MOF) except in the areas of protected area management and biodiversity conservation. The changes the Bank had hoped to promote were developed in several forestry sector studies and are rather well summarized in *Indonesia: Environment and Development* (World Bank 1994).

The Government's request for budget support from the International Monetary Fund (IMF) and the Bank in early 1998 provided an opportunity to attempt some policy changes in the environmental and natural resources management fields. Given the limitations on how many conditionalities can be accommodated without overloading an adjustment operation, and the importance of the forests to the Indonesian economy in general and to its eventual recovery in particular, most of the emphasis went to forestry. And, the reforms that the Government agreed to pursue were substantially based on the 1994 agenda.

Within MOF, there was limited ownership of the reform agenda below the ministerial level, which constrained the reforms' effectiveness and slowed their

progress. In part this resulted from inadequate consultation. There was virtually no interaction between the Bank or IMF and MOF on the January 1998 reforms, primarily because the Bank had not had a working relationship with MOF outside of the field of biodiversity conservation and protected area management since 1994. There was limited consultation on the conditionalities of the next operation, Policy Reform Support Loan I, mostly through BAPPENAS and the offices of the donors in the Consultative Group on Indonesian Forestry. By the time of Policy Reform Support Loan II, however, some connections had been reestablished between Bank staff and MOF, and more discussion could take place with MOF staff. Genuine ownership within MOF was still weak, nevertheless.

The seminar sponsored by the Bank on 26 January 2000 that led to "the eight points" was a significant step in both stakeholder consultation and policy dialogue. It was the culmination of an organizing process that began in August 1999, immediately after the 1999 meeting of the CGI in Paris. There was a series of planning meetings jointly chaired by the Bank and BAPPENAS and attended by roughly 25 people from GOI, the donor community, the forestry industry, specialized agencies such as CIFOR and ICRAF, academia, and environmental and social forestry NGOs. The planning group decided on the convening authority for the meeting, the objectives and desired outcomes, the topics to be covered, and the format. A smaller group in which the Bank, the EU Forest Liaison Bureau, CIFOR and BAPPENAS played the lead roles then worked out the details.

Since March 2000, the Bank has chaired the Donor Forum on Forestry, established by agreement between the Government and the donors at the February 2000 CGI meeting. Its purpose is to assist the Government in meeting the commitments it has made for forest policy reform, to monitor progress and coordinate donor support. The Forum has worked with the Government in preparing for CGI meetings in October 2000 and April 2001 through pre-CGI events at which technical details were discussed.

The only World Bank loan in forestry is the Integrated Conservation and Development Project for Kerinci Seblat National Park, and there are at present no plans from either the Bank or the Government for new lending in the sector. However, the Bank is very much involved in other non-lending activities besides the Donor Forum.

The World Bank/WWF Alliance for Forest Conservation conducted an international seminar on control of illegal logging in August 2000 and sponsored a national workshop conducted by MOF immediately thereafter on the same topic. Together with the Governments of the United Kingdom and the United States, the Bank will sponsor another international meeting, this a ministerial-level conference on forest law enforcement, to be hosted by Indonesia in September 2001. The Bank has offered funding for secretariat services for the IDCF and for analytical support on specific issues. The Bank is presently not only conducting a pilot study of forest mapping and monitoring using low-level, multispectral video, but also assisting the Ministry of Environment in

carrying out the national strategy studies for implementation of the clean development mechanism of the Kyoto Protocol in forestry, both with funding from AusAID. Areas in which analytical and advisory assistance is planned in the fiscal year beginning 1 July 2001 include:

- ❑ a study of the effects of forest resource pricing on forest management;
- ❑ a study of the potential benefits and alternative approaches for conversion of deforested land to community use for agroforestry;
- ❑ consultations on community forest management;
- ❑ an assessment of the characteristics and extent of illegal logging.

The Bank is actively working to determine how it can best support local and provincial governments now that regional autonomy has become effective. Forestry, agroforestry, land management and land use planning, and issues of land tenure are all elements being discussed with stakeholders in selected provinces and kabupatens.

One possible outcome is menu-based local government support lending with a range of choices wide enough to include not only the typical infrastructure, education or health facilities development activities but also support for community forestry and agroforestry.

The work is planned because the present Government of Indonesia is receptive

to advice and assistance on forest policy and is at last demonstrating the political will to address the difficult issues such as illegal logging and corruption. This is encouraging to the Bank and should lead to additional forest management assistance to Indonesia, some of which is being withheld because of disappointing performance in the past, even in the years since 1998. Given the international emphasis on sustainable forest management and Indonesia's status as one of the major forest countries, funding sources such as the Global Environment Facility and the World Bank/WWF would be prepared to play much larger roles as long as they could foresee a constructive and sustained partnership with the Government. The Bank would help to mobilize those resources.

It serves no useful purpose to gloss over the fact that the forests of Indonesia and other countries in this region are in crisis. The Bank and donor colleagues working in the sector have not given up hope, but we are only just now seeing enough of the strong political will and leadership needed to halt illegal activities and install sustainable management practices. We are optimistic at present, but we are also well aware that, so far, little has changed in the forests despite much talk and many previous promises. We hope for real progress — and for the shared sense of urgency that is needed to fight the strong vested interests and save Indonesia's forests before it is too late.

Government-Donors Interaction in Indonesian Forestry*

Jozsef Micski

INTRODUCTION

THE forests of Indonesia once represented 10% of the world's remaining tropical forests, second in size only to that of Brazil. However, policy for three decades decided directly from the highest levels of the Indonesian Government with objectives of gaining maximum return from timber exploitation for an elite group and of well-connected businessmen has systematically mined and degenerated the once immense forest resources of the country.

The Ministry of Forestry was created in 1983 with the task of developing the Indonesian forest industry sector. During the 20 years elapsed since its creation the ministry together with the booming forest-based industries have established Indonesia as a major supplier of tropical hardwood products, particularly plywood, and more recently even pulp and paper.

During the "Orde Baru" regime and until recently very little attention has been paid to the environment at large and sustainable supply of raw material in particular. With the growing awareness among Indonesians and under the watch-

ful eyes of the international community, particularly NGOs, the focus has turned towards Indonesia. Indonesians as well as the international community demand clear policies on forest management and against environmental destruction.

About 16.6 million hectares of production forest has been damaged since the Government began to award forest concessions to timber companies in early 1970 and 14.2 million ha have been converted to estate crops.¹

The 1997/98 land and forest fires triggered a growing awareness of the crisis in Indonesia's forest sector. However, it was not until the June 1999 election and the installation of a democratically elected government that the full extent of the damage caused by three decades of uncontrolled exploitation started to be widely understood.

The Planning Agency of the Ministry of Forestry is conducting a recalculation of the forest resources based on recent 1999-2000 LANDSAT imageries.² According to the interim results, about 80% of permanent and limited production forests areas covering 46.7 million ha, the remain-

*The views expressed in this article are those of the author and do not represent any official view of the European Commission.

¹Ministry of Forestry and Estate Crops June 1998.

²Ministry of Agriculture and Forestry 2000, <http://mofrinet.cbn.net.id>

ing primary forest area is only 18.9 million ha. Logged over forests with moderate to good conditions cover 13.6 million ha, while damaged forest, bare lands and areas converted to other uses cover 14.2 million ha, or 30% of the production forest areas!

DONORS' CONCERN

The state of Indonesia's forests became an international concern and was an issue on the agenda of the Consultative Group on Indonesia (CGI) in Paris in July 1999. By agreement a follow-up meeting was held in Jakarta to illustrate the nature of the problems in forestry. The dramatic state of Indonesia's forest was revealed in that post-CGI meeting held in Jakarta on 26 January 2000. Among others it was viewed that the Department assigned with the responsibility of managing and protecting the country's forests and in a wider concept its bio-diversity has failed to do so. Therefore, it was felt the issue should be elevated to a national body to assure a non-monopolistic approach. Also, it was agreed that decision made in the forest sector has impacts on other sectors, as well as decisions in other sectors affecting the forest areas and hence a national coordinating forum should be established.

At the interim CGI meeting in 1-2 February 2000, the Government committed itself to a set of actions, among others to establish an Interdepartmental Committee on Forestry (IDCF) and a multistakeholder Working Group under IDCF to develop the national forest program (NFP). In response, the CGI donors proposed and the Government accepted the formation of a "CGI Donor Forum on Forestry" (DFF) to assist in implementation of the commitments and provide liaison with CGI members on forestry issues.

At the ordinary CGI meeting in Tokyo in October 2000 the Government reported very little tangible progress on its commitments. However, the then newly installed Minister of Agriculture and Forestry committed once more the Government to take firm actions for operationalising IDCF, commence work on NFP and, within one month, to prepare an Action Plan to address these commitments.

The Action Plan was prepared by an interagency team and presented to the IDCF at the end of November. It covered an expanded list of commitments compared to the one in the February meeting. It was agreed among analysts/experts that the Plan needed to be more specific and to reflect some kind of urgency, but it did provide a foundation for actions to be accomplished in time to demonstrate some kind of progress in the future.

Meanwhile, the Coordinating Minister for Economic Affairs expressed the view that the Government cannot tackle all its commitments at the same time, and requested to work on four of the most urgent issues, which are: Illegal Logging; Forest Fires; Restructuring of Indebted Wood-based Industries and Forest Inventory and Mapping.

In recent developments, in mid-March 2001, the Minister of Forestry has been replaced, the third change since the interim CGI meeting in February 2000, which may indicate a non-conducive working environment. Since the new Minister has taken office there has been a flurry of activities both within the ministry and at the IDCF.

FORA FOR DIALOGUE BETWEEN GOVERNMENT AND DONORS

Based on above considerations three bodies have been established, IDCF,

Working Group on National Forest program and DFF.

Inter Departmental Committee on Forests (IDCF)

Presidential Decree No. 80 of 7 June 2000 created IDCF. The tasks and functions of the IDCF are:

- ❑ *formulating* the policies and *coordinating* handling and resolution of arising problems with forest resource management and conservation, both at national and local level;
- ❑ *providing advice* to the Government in solving these problems;
- ❑ *formulate* an integrated policy and strategy for forest management and conservation drawn up in the National Forest Program (NFP);
- ❑ *coordinate* the implementation of policies and strategies regarding NFP;
- ❑ *coordinate* forestry sector related activities.

Working Group for Coordinating the Implementation of the National Forest Program

According to the Presidential Decree No. 80/2000 a Working Group to be established through a Decree of the Coordinating State Minister for Economy, Finance and Industry to coordinate the implementation of the National Forest Program. Ministerial Decree KEP-37A/M.EKUI/08/2000 established the Working Group. It stipulated multi-stakeholder participation among its members and tasked it with the function to assist the smooth implementation of the tasks of the IDCF to formulate coordination of NFP for the management and conservation of forest resources

for the purposes of development and environment conservation.

Donor Forum on Forestry

The Forum was created in March 2000 in order to have a dialogue partner with the Government on forestry issues. Its main functions were defined as:

- ❑ *facilitating* consultation and dialogue;
- ❑ *encouraging* GÓI through the IDCF to address intersectoral issues affecting forests;
- ❑ *elevating* the National Forest Program process to interministerial level;
- ❑ *supporting* those who are working for forestry reforms; and
- ❑ *providing technical advise*.

DIALOGUE ON FORESTRY ISSUES

Government of Indonesia

IDCF was created but only met a few times prior to the Tokyo CGI meeting. After the Tokyo meeting a smaller part of the IDCF has been meeting quite frequently, particularly since beginning of 2001, but a true interagency collaboration has not yet been materialized.

The Action Plan was prepared in early December 2000, but despite obvious efforts by the Coordinating Minister of the Economy and his staff, and of dedicated individuals in the Ministry of Forestry and elsewhere, and the President's personal commitments given to the DFF, the Action Plan was not being implemented in a way that is going to lead to a success. It lacks focus, a proper structure, and time schedule.

Working Group on NFP has not yet met in its full fora since its creation. One

Round-Table discussion was held in March 2001 between senior officials of the Ministry of Forestry and DFF. In that meeting valuable discussions resulted in some concrete proposals but no further visible development has since taken place.

One common problem with these two groups is the *membership* list. At its creation there was too high ambitions to bring almost everybody onboard without paying due attention to the function and responsibility of these groups. Thus IDCF is an *interministerial* group and its membership list should reflect that, while Working Group on NFP is a *technical* group and its members should be appointed accordingly.

In both these groups the Ministry of Forestry is an important member, stakeholder. Therefore, the attitude of that ministry is of utmost importance for the progress, outcome and quality of work of these groups. Since July 1997 four ministers, one of them serving two different periods, have led the ministry. This gave a negative signal to the donors because they felt there wasn't a conducive environment for a real policy dialogue.

Much of the root of the problem seemed to be that activities continued to be conducted in a great deal as "business as usual", or ministers played more attention to their political ambitions rather than creating and promoting an environment needed for implementation of a sustainable natural resource management. The transparency and consultation necessary to obtain the cooperation of all stakeholders in achieving sustainable forest management have been promised but not delivered. The processing of a dialogue with DFF almost came to a standstill,

which found it difficult to establish a consistent, cooperative relationship with senior officials or even obtain information on the progress of CGI commitments.

However, the good relationship between the DFF and Ministry of Forestry has been re-established since the latest minister has been installed in mid-March 2001.

Donors

On the other hand, the DFF has brought donors together in an unprecedented move, which through discussions managed to arrive at a common understanding and ways of assisting GOI in tackling the difficult issues connected to the forestry sector. Since its inception DFF has had several discussions and meetings within itself and with IDCF and Ministry of Forestry on most urgent issues in the forestry sector, however with limited success.

Also, Forum members met the President in mid-December 2000, and received commitments about: (1) a highest-level political statement concerning the importance of the forests for Indonesia; (2) starting of a process to resolve land tenurial issues; and, (3) commencing on a national campaign on forestry.

These, like the CGI commitments, have only been met partly or not being met at all. However, the appointment of the new Minister of Forestry seem to have boosted the moral within the ministry, IDCF and also gave new inspiration to DFF in its effort to assist the Government to achieve sustainable management of all forests in Indonesia. Since then DFF has several times expressed and demonstrated its willingness to have a continuous dialogue

with the Government and Ministry of Forestry on these issues.

FIELD ACHIEVEMENTS

Lack of Progress

To be frank it must be stated that the Government so far has lacked the necessary political will to demonstrate its CGI commitments by relevant political statements and tangible results. Just to mention a few signs of disappointment.

- ❑ *Illegal logging* has not diminished, rather increased, partly because the demand side has not been adjusted and/or reduced;
- ❑ *Deforestation and degradation* of forest areas continue. According to the Ministry of Forestry's estimate, 30% of the re-assessed production forest areas are now classified as "non forest" areas.
- ❑ Concluded negotiations of *debt restructuring* of some of the largest wood industry companies have been made without due diligence regarding adherence to forest laws and regulations. Large pulp and paper industries are negotiating debt restructuring based on plans for extension without having conceivable way of explaining the additional timber sourcing and/or obligation to establish pulpwood plantations and phase out dependence on natural forest.
- ❑ *Decentralization* in some districts is practiced in such a way, which jeopardizes the forest resources by allocating concessions in an unsustainable manner and in some cases in contradiction with instructions issued by the central government.

- ❑ *Prosecution* is either lacking and/or not in place or issued fines do not correspond to the seriousness of the offense or rather "crime" conducted.

Some Achievements

On the *positive side* it is noted that first, Ministry of Forestry has reassessed and made public results of forest inventory and mapping. However, it covers only 64.5% of the total forestlands and it *did not address the land tenurial issue*. One may ask the question: Is it the Government of Indonesia's intention to retain 120.35 million hectares or about 62% of its land area under forest cover? Also, the Ministry of Forestry has established in year 2000 a Directorate of Forest and Estate Crops Fire Control to prepare policy, provide technical assistance and public information and coordinate with other agencies especially for forest fires that cross provincial boundaries. Government Regulation No. 4 of 2001 assigned responsibility for inter-district fire control to Governors and most provinces have set up fire control centers and technical teams. In addition concession holders are obliged to provide operating funds in their annual budget.

Very recently, on 12 April the Government took a significant step in cutting off supply of *ramin* species, which is being stolen from Tanjung Puting National Park, by issuing a moratorium on cutting of *ramin* species and sub-sequent inclusion of *ramin* in the Convention on International Trade in Endangered Species (CITES), Appendix III.

On 24 April 2001 the President made the following statement against illegal logging: "The President encourages all

related parties to use all resources and effort to take serious actions to eradicate Illegal Logging. The President also wishes to welcome all kinds of assistance rendered for the purpose of completing the mission."

Certification/Ecolabeling

A growing number of eco-sensitive markets and consumers of the international community demand the use of instruments that promote trade in goods and services produced in a sustainable manner, and strengthening and expansion of existing procedures such as credible and effective certification schemes for forest and forest products. However, it must be stated very clearly that any certification must be *reliable, independent*, i.e., third party inspection.

There may be a linkage between illegal logging and trade. It has been discussed in the G8 meeting in Tokyo last and is expected to be discussed at the next one to be held in Italy. One of the best tools countries have, including Indonesia, to request producers to work towards certification and by doing so ensuring and even increasing its market shares in the international trade.

CONCLUSIONS

Generally, even if some processes are progressing, very few tangible results have been achieved. It remains urgent to tackle the rapidly deteriorating situation on a broad front. Most needed is a *high level joint political statement* of the President, Vice-President, Chairpersons of the House of Representatives (DPR) and the Peoples' Consecutive Assembly (MPR).

Law enforcement has to be endorsed from the highest political level. Persons that manage illegal logging operations continue to do so with impunity, as the Ministry of Forestry encounters difficulty in obtaining effective service on the cases it has presented to police, prosecutors, and the courts. Prosecutions of the initiators of forest and land fires in 1997-1998 have also been inadequate. Current statement by the President and relevant Decrees against illegal logging and other initiatives are welcome but not enough.

It is believed that IDCF, being the *coordinating instrument* for NFP process in Indonesia, can play a major role on setting up relevant fora for continued and integrated dialogue between all stakeholders, i.e., other departments, Donor Forum on Forestry, private sector, NGOs, CGI, etc. Proactive support of the Ministry of Forestry is a precondition for the success of this body.

The ongoing *policy dialogue* that has been conducted recently has shown that a more conducive environment for progress exists. It is hoped that this dialogue will persist and strengthen in the near future.

Also, promising is the further exploration of the use of instruments that encourage trade in goods and services produced in a sustainable manner, and strengthening and expansion of existing procedures such as credible and effective certification schemes for forest and forest products.

However, "we have seen this before". Government has promised to do something but very little tangible and visible results have been delivered. Let's hope that what belongs to the past and the future will be different!

Foreign Assistance to the Indonesian Forestry

Agus Setyarso

RATIONALE

Initial Stage of International Influence on Forestry

DESPITE several bilateral cooperation that already existed, Indonesia's acquaintance with international community that deal with forestry was signified by its commitment to CITES (Convention on International Trade in Endangered Species) programs in 1975, three years after the Stockholm Conference on Environment. This was surprising since forestry in Indonesia was in the middle of timber export inflation, and in the beginning phase of economic growth. CITES was known only by a limited number of people, mostly within the academic milieu.

Did Forest Rich Country Cry for Help?

The question was common in the 1970s. Forests covered more than 70% of total land area within that period. Nobody worried about any threat to biodiversity and there was no single doubt on the fulfillment of CITES regulations. In terms of forest utilization, private investment found its best opportunities, and payback period in logging companies was less than 5 years. Looked like international aid

to forestry was not needed. What was felt more convenient was inviting private investment than foreign aid. It was believed that inviting foreign investment in logging operation would bring also technological transfer and capacity building.

Indonesian Forestry Has Its Own Homework

Within the country, forestry was considered as one of primary resources that can boost the national economic growth. The necessity of generating foreign investment and exchange in supporting the economy was far ahead of consideration on conducting best practices. Capacity building was not materialized as expected, and transfer of technology was not institutionalized.

Basic policy on Indonesian Forestry was derived from and even dictated by national policy. There has not been single forestry initiative originating from forestry itself. Ministry of Forestry was becoming bigger and powerful, but it was (and still is) only following the national policy which is more economic oriented. Indonesian forestry as a system has never been well defined and as a consequence there is a lack of comprehensive policy in forestry.

The Necessity for International Aid to Forestry

Starting from 1983 (the creation of ITTO/International Tropical Timber Organization) Indonesian forestry began to be engaged in international economic treaties. UNCED (1992) was seen as the momentum when international policy included environment and forestry within economic development. Various instruments to this have been created and enforced. On the other hand, Indonesian economy is under heavy commitment to international aid, and forestry is mainly treated as part of economic setting. Indonesia's forestry was put into more complicated and multi-dimensional setting. Within its internal affairs, forestry has its own homework in dealing with more than 50% of the national land area, and externally it has to respond and collaborate with international movement. To many people, forestry is currently somewhat in disorientation. It is therefore very logical to review the entire situation and put back Indonesian forestry into realistic position in pursuing the sustainable objective.

STATUS AND HISTORY OF INDONESIA'S FORESTRY POLICY

The Beginning of the History: Healthy Forest Resources

Data on Indonesia's forests is never complete. In 1985 Ministry of Forestry estimates that the nation's forests was 140.4 million ha. This was 70% of the total land area. Out of total forest area, 30.7 million ha are classified as protected forests, 18.8 million are nature

reserves or national parks, 64.3 million ha are production forests and 26.6 million ha are "convertible forests," designated for non-forest uses such as agriculture, settlement and transmigration. By applying timber increment of 1 cum/ha/year, it was calculated that the sustainable production of Indonesian forests was 60 million cum. With this resources and production level, a country like Indonesia could do almost everything necessary to prepare and establish good and sound policy and management down to the ground. This is what people thought at the early 1970s.

Classical Reason: Using Natural Resources to Fuel Economic Growth

Unfortunately, forestry has never been left alone to develop. It has to fuel the national economic development and this message was clearly stated in the Basic Forestry Law No.5/1967. Until recently, Indonesia's economic development has been virtually dependent upon natural resources such as oil, minerals, timber, and agricultural products. Along this line, forestry plays multiple, often conflicting economic, social and environmental roles. These roles have not been effectively balanced over the last 25 years. Resource extraction and development pressures have dominated, leading to a deforestation rate of more than 1.5 million ha per year. State sponsored programs in transmigration, estate crops and swamp development are responsible for 67% of this total.

Timber extraction has been an important source of foreign exchange. In 1999,

forest products accounted for 27% of non-oil export earnings and ranked at second after clothes and textiles. Along with related downstream (secondary and tertiary sector) manufacturing, they contribute approximately US\$9 billion per year to the economy, or 7% of Indonesia's GDP (BPS 2000). The demand for forest products is expected to grow in coming years due to population increase, economic growth and international trade.

The Overshoot

Economic orientation has taken victims in terms of the deterioration of natural resources, including forests. The demand for forest conversion to other uses exceeded 25 million hectares. In rural settings, forest areas at high altitudes and wetlands in the coastal areas are being converted to agricultural uses, with considerable disruption to ecosystem processes. Soil erosion due to these disturbances will cost the country an estimated \$300-400 million US per year, 90% of it in the form of loss of land productivity and the remainder in the form of accumulation of sediments in irrigation systems, reservoirs and coastal areas. In Central Kalimantan, one million hectares in a single block of forest was cleared cut to give space for rice field. This effort failed and resulted in massive unproductive area. A big fire left more than 3 million hectares of forest burnt in East Kalimantan in 1983. Bigger fires struck the same area in 1997-1998 and cost more than 5 million hectares and imposed some US\$8 billion in economic losses on the citizens and businesses of Indonesia.

The total area of degraded wasteland is presently estimated at 30 million ha. Without serious efforts to address this problem, wasteland areas can be expected to increase by 1-2% per year. The government acknowledges 1.7 million ha forest degradation annually, based on 1988-1997 statistics. Recent statements by NGO association on the preparation of natural resources law pointed 2.2 million ha as annual rate of deforestation since 1998.

BAPPENAS (the National Development Planning Board) has issued the National Strategy for Spatial Planning Scheme Development. On the contrary, the implementation of provincial spatial planning has produced a side effect in terms of other 25 million-forest conversions.

Recent recalculation of forest resources (MoF 2000) showed that more than 14 million hectares (30%) under the concessionaire's management were deforested, and 6 million hectares (20%) under protected and conservation forests are not covered by forest anymore.

Reform Side Impacts on Forestry

Indonesia experienced major political change in 1998 as a result of people initiated reform. Democracy, good governance, and autonomous government are the main target of the reform movement. Forestry has to go along with this and during transition period there are some unexpected phenomena. In pursuing democracy, some conflicts intensified. Good governance is downgraded by low law enforcement, and autonomous government resulted in independent forest policies at district level without ag-

gregate control. Forest is sought as the first and primary sector in generating internal income by regional government (Setyarso 2001).

AID TO INDONESIA'S FORESTRY (INTERNAL ASSESSMENT)

Entry Points

The initial entry point of foreign assistance in forestry was related to environment. JICA was the major donor in rehabilitating burnt area and establishing *Pusrehut* (Center for Tropical Forest Rehabilitation). Some foreign funded NGO (WWF/World Wide Fund for Nature), TNC (The Nature Conservancy), CI (Conservation International), Birdlife International, Wetland International, etc. have been working on various ecological studies and were actively involved in the management of conservation areas. In slightly different orientation, Ford Foundation and Windrock International contributions were noted more in community type projects.

Aid in Economic Framework: The Beginning Phase

Indonesia's forestry engaged in international aid within economic development framework since early 1980s. Starting in 1983 (the creation of ITTA), forestry is directly involved in international economic-related treaties (e.g., ASEAN, GATT, and NAFTA are among them). The International Tropical Timber Organization (ITTO) was created by treaty in 1983. The primary idea is to provide an effective framework for consultation among producer and consumer member countries on all aspects of the world timber economy

within its mandate. Among its multiple objectives is a commitment to assist members to meet ITTO's unique Year 2000 Objective, which states that by the year 2000 all tropical timber products traded internationally by Member States shall originate from sustainable managed forests. The banks (World Bank, Asian Development Bank) came into forestry scheme in the late 80s particularly dealing with infrastructure (watershed projects) and capacity building (forestry institution and conservations projects). The biggest financial player ever since in Indonesian economy is IMF (International Monetary Fund).

Big Players in Forestry

Aid in forestry was intensified after UNCED, 1992. Germany through GTZ, United Kingdom through ODA and DFID, USA through USAID/NRM program, Japan through JICA and OECF programs, and lately European Union (EU) are the most active donors to date. Table 1 shows that these donors deal with pilot projects, and capacity building. Other activities can be noted are technical assistance and policy analysis. WB through IBRD was active in capacity building. WB also sponsored GEF in dealing with various forestry based pilot projects. JICA has been significantly noted in providing infrastructure. GTZ and ODA/DFID are involved in pilot projects, but also provide technical assistance and works on some policy analysis. EU has pilot projects, but maintain a bureau to liaise to the decision-making processes.

Other International Institutions

Some international institutions related to forestry are: CIFOR (Center for In-

ternational Forestry Research), ICRAF (International Cooperative Research in Agro Forestry), Biotrop, an ASEAN Funded Research on Tropical Biology, SIDA (Sweden), FINNIDA (Finland), DANIDA (Denmark), AUSAID (Australia), CIDA (Canada), TROPENBOS (The Netherlands). These institutions are dealing with research and pilot projects.

Forestry Performance

Despite various donors working actively in Indonesia's forestry, the forestry sector does not perform as expected. Capacity of forestry institution has not performed optimally. This can be judged through some indicators of achievement either in policy making, forestry planning, organizing/staffing, and most of all, in managing information, monitoring, and effective control.

Forestry practices by concessionaires fall far short of the goal of sustainable management of production forests. Illegal log and pulpwood production was estimated at nearly three times the official harvest in 1998, and it occurred in protected forests and national parks, as well as productive forests. One of the main drivers of illegal logging is excess capacity in the Indonesian wood-processing industry, a result of more than a decade of below-market stumpage fees and log prices, and banks' failure to analyze new wood-processing investments carefully. Of the US\$51.5 billion in private debt owed to the Indonesia Bank Restructuring Agency, \$4.1 billion is in loans to the forest indus-

try, of which \$2.7 billion are classified as non-performing.

UNDERSTANDING THE INTERNATIONAL POLICY

Significance

It should be noted that donors have their own missions and policies when they plan to get memorandum of understanding of collaborative programs with the GOI. Evaluation should not be limited to the Indonesian side, but has to address the donors' interests and expectation. This is important to judge the balance benefits between parties. This study found some limitations in getting information from the donor's side. *First*, MoF does not have sufficient information on the donor's policy prior and even after the project. *Second*, only few donors publish their foreign policies in forestry. Following are some that can be assessed to date.

Strategies of Foreign Players

USAID

USAID's strategy for helping Indonesia achieve broad-based and sustainable growth concentrates on economic management, health and family planning, environmental management, and local institutions, which support democracy. United States national interest is defined by Indonesia's trade and investment potential, its potential as a democratic and stabilizing influence in the region, and its key role in global issues such as natural resources management. Indonesia's strategic location and growing international influence are having an impact on security, trade and

investment issues within the region and with the United States.

Japan

On the basis of studies and research concerning development conditions and tasks ahead in Indonesia and its development plans, as well as policy dialogues between Japan and Indonesia, Japan has given priority to assistance in the following issues: Achieving equality, human resources development and education, environmental conservation, support for industrial restructuring, and development of industrial infrastructure.

European Community

Of all the ASEAN countries, trade relations between the Indonesia and the EU are the most developed, due to Indonesia's export diversification policy (from agricultural products and raw materials towards durable consumer goods such as textiles, shoes, furniture and electronics), adopted in the mid-eighties. The EU is Indonesia's second largest trading partner (after Japan), and in 1998 was the main destination for Indonesia's exports of goods other than oil and gas. For the last 25 years, the EU also has been the largest foreign direct investor in Indonesia.

The earliest EC programmes supported Indonesia's drive towards food self-sufficiency (agriculture, fisheries, irrigation). Since 1992, the development programme has mainly concentrated on the forestry sector, in line with basic principles of conservation and sustainable management. The programme provides for sector support (mapping/GIS, radio communication), fire

prevention and control, and integrated projects for conservation and production. Total funding for development co-operation currently comes to EUR140 million. A Forest Liaison Bureau assists in developing forest policy, co-coordinating the overall programme and liaison with other donors to the sector, particularly from the EU.

The World Bank

The WB general strategy to Indonesia was initially providing aid to support economic infrastructure. One of the hypothetical expectations was that the economy will be growing faster, once the necessary infrastructure is in place. However, Seymour and Dubash (1999) indicated that:

- ❑ Starting in the 1980s, the World Bank came under severe criticism for financing a series of environmentally destructive projects in developing countries. The bank has come under fire for financing a series of environmentally damaging projects, including transmigration in Indonesia. These projects have led to a variety of adverse impacts in borrower countries, including deforestation and displacement of indigenous peoples.
- ❑ In the late 1980s and early 1990s, U.S. leadership was instrumental in leveraging key environmental policy reforms and significant mechanisms to ensure transparency and accountability of the World Bank's operations. In response to criticism voiced by environmental advocates and amplified through the U.S. Congress, the World Bank adopted policies and procedures in the late 1980s and early 1990s

to assess and mitigate the adverse environmental impacts of individual projects. For example, the bank's forestry policy prohibits the institution from financing logging in primary tropical forests. Along with these policy reform efforts, the World Bank has pursued structural changes and investment strategies intended to demonstrate its commitment to environmentally sustainable development.

The IMF

The role of the International Monetary Fund has remained fairly steady over its sixty-four year history. The IMF is a financial forum for openly discussing the fiscal policies of its members and to avoid a return to severe exchange restrictions on international currencies. IMF membership is open to any government which conducts foreign policy and accepts that statutes under which the IMF is run.

Voting procedures in place at the IMF are weighted in favor of the largest financial contributors. Recipient governments are encouraged to restructure their economies to promote free trade, but are under little obligation to follow the measures dictated by the Fund. Regarding its policy to Indonesia, IMF was under serious protest. The IMF has failed to promote self-sustaining economic growth anywhere in the world. Instead, it has left debt and dependency in its wake. Jakarta's economy remains bedeviled by inefficient monopolies, insolvent banks, harmful trade barriers, wasteful food subsidies, and political favoritism. Simply put, Jakarta needs to be forced to reform.

Asian Development Bank (ADB)

ADB selected rural areas and rural communities to be the main target. That is why ADB is rarely dealing with forestry, particularly natural forest management. ADB's operations during the year continued to be guided by the interim strategy that emphasizes policy and institutional reforms in key economic sectors, support for the implementation of the decentralization agenda, and strengthened measures for poverty reduction and social protection. ADB closely coordinated with IMF, World Bank, and other financial institutions in pursuing the interim strategic agenda.

ADB is developing a new country operational strategy that will guide its medium-term operations in Indonesia. Major strategic concerns in Indonesia include poverty reduction, governance, decentralization, return to sustainable growth, and social development. The new strategy will address these concerns through a combined program of assistance, comprising policy reforms and priority investment.

International Community Consolidation

Manifestation of Double-Channel Policy

International community consolidation has started with the countries signatory on CITES, but was remarkably strengthened in the UNCED, 1992. From this date on the influence of international community uses a double-channel policy that combines government channel and market mechanism. Following are some manifestation of it.

- From the UNCED Conventions, two major agreements, the Convention on Biological Diversity and the Framework Convention on Climate Change, recognize the broader role that forests play in the maintenance of global ecosystems.
- *Criteria and Indicators for Sustainable Management of Forests*. In 1990, the International Tropical Timber Organization (ITTO) became the first intergovernmental body to produce criteria and guidelines for the sustainable management of tropical forests. Following the renegotiation of the International Tropical Timber Agreement (ITTA) in 1994, timber-producing countries were able to extract an agreement from timber consuming countries that they, too, would comply with ITTO's Target 2000, the year by which all forest products should come from sustainable managed forests.
- *World Commission on Forests and Sustainable Development (WCFSD)* received a formal mandate from the InterAction Council of Former Heads of State and Government. A number of working panels are being created to supplement WCFSD. These panels will address the sustainable and equitable use and management of forest resources; trade and the environment; and financial mechanisms, international agreements, and the roles of international institutions.
- *Intergovernmental Panel on Forests*. The WCFSD process is designed to be complementary to that of the Open-End Ad Hoc Intergovernmental Panel on Forests (IPF), approved during the third session of the United Nations Commission on Sustainable Development. The Commission on Sustainable Development created IPF to generate consensus and propose actions for the implementation of UNCED's forest-related agreements at the national and international levels. Such agreements could cover a multitude of issues.
- *CITES Monitoring and Protection*. The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), which became effective in 1975 and now has 128 member countries, is a binding international treaty regulating trade in wildlife and plants to help protect species threatened with extinction.
- *Forest Stewardship Council (FSC)* is an assembly of NGOs, industry representatives, scientists, and indigenous peoples established in 1993 to promote the environmentally appropriate, socially beneficial, and economically viable management of the world's forests. In 1994, FSC adopted a set of principles and criteria for the sustainable management of forests, as well as guidelines on how to conduct field inspections and verify the chain of custody of certified forest products as they travel from the forest to the store shelf.

The Formation of CGI

The borrower countries and institutions get consolidated by the formation of Consultative Group on Indonesia (CGI). The CGI comprises 21 countries and 13 institutions. The CGI was formerly called

the IGGI (Intergovernmental Group on Indonesia) and was set up when Soeharto came to power to finance the New Order. CGI member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Britain, Germany, Italy, Japan, New Zealand, Norway, South Korea, Spain, Sweden, Switzerland and the United States. The CGI also involves the World Bank, the International Monetary Fund, the Asian Development Bank, the Kuwait Fund for Arab Economic Development, and the Saudi Fund for Development, the Nordic Investment Bank and the Islamic Development Bank.

Stronger Influence

The influences of international community to Indonesia forestry can be classified into two categories; namely: through the international policy instruments related to environment (systematized after UNCED), and through the international aid to Indonesian Economy, as aid requirements. The former gives its influences by the increasing demand for Indonesian commitments through various treaties. Sustainable development, environmental impacts and best practices on forest management are among priorities that are being addressed. The later uses the power of international lending mechanism to demand certain economic and technical requirements in forestry practices. IMF signified this by the issuance of Memorandum of Economic and Financial Policies of the Government of Indonesia (15 January 1998), which describes the policies that Indonesia intends to implement in the context of its request for financial support from the IMF. At least 7 points of this memorandum had direct impact to forestry (within the strategy of

structural reform: trade and investment, deregulation and privatization, and environment). Along this line, the Government of Indonesia had made another set of commitment in forestry to the CGI in February 2000.

UNEQUAL LEVEL OF PARTNERSHIP?

Unavoidable Collaboration

With the current level of international influences, Indonesia's forestry cannot avoid pressure. Collaboration with international banks and institutions will likely continue. Problems in forestry have been included in the international commitment and memorandum, and there is little left in the country to enable self-development in forestry sector.

Who Was Helping Whom?

At the beginning Indonesia's forestry had contributed significantly and played important role in the global forestry. For more than 20 years it helped the global environment and supplied materials for the world industry. Yet, the situation has fluctuated. Forestry has been pushed to the danger limit. The sustainable supply of wood is questionable, the role to national economy is continuously limited, and most of forest resources have to be restored and rehabilitated.

Who Gains from Collaboration?

The contrast changes in the Indonesia's forestry role within international relation show that the intended mutual benefit and win-win solution turns did not materialize. The following are some indicators underlying the statement:

- ❑ Capacity has never been established: National Forest Inventory had been initiated, but not further developed and maintained, resulting in poor information on forestry; a number of staff has been sent for graduate studies but there is no clear manpower planning; forestry planning has not been prepared; monitoring and controlling capacity has never been effective; the role of communities in forest management has not been clearly defined and realized.
- ❑ There have been various projects funded by international aid; even donors in forestry have been associated into CGIF (Consultative Group on Indonesian Forestry), and currently DFF (Donors Forum on Forestry); but there is no significant evidence on utilizing the projects' recommendations for effective policy decisions.
- ❑ The bargaining position of forestry to its parent system (national policy) has never increased. Forestry was always hidden in its intangible environmental function. The role of environmental function into economic planning and decision has never been sufficiently considered.
- ❑ International aid in forestry has been intensifying during the last decade, but it did not arrest the increasing deforestation and forest degradation rate.

Inequality Does Not Solve Any Problem

It turns out that international collaboration in forestry was on unequal terms. Forestry in Indonesia has been institution-

alized into various international organizations and banks. Yet, domestically, forestry is still an instrument to be played according to economic terms. Results learned from International funded projects have never been institutionalized in broader perspective of Indonesian policy structure. It can be observed clearly that International institutions are enriched and becoming stronger, but there is no significant progress in terms of national performance in forestry. This situation will not help anyone in the long run, and something has to be reconsidered in the future.

NECESSARY ACTIONS FOR THE FUTURE

The Need for Strategic Review

The Gol, particularly represented by the Ministry of Forestry (then Ministry of Forestry and Estate Crops, then Ministry of Agriculture and Forestry, and back to Ministry of Forestry) had never a clear focus on international perspective. The conduct in international relations can only be viewed as a reactive attitude. It reacted with respect to national policy, and it reacted to the international influences. Fulfillment to international treaties and commitments predominates its performance. This strategy might be sufficient when forest resources were abundant. It is not effective anymore with regard to the current situation. Forestry in Indonesia went below initial expectations, and only little is left on hand to be used as bargaining foundations. While international community is still concern and maintains some interests, Indonesia's forestry shall revisit its policy in dealing with international relations.

Redefine the Policy Decision Structure

Some parts of the country can go independently and restructure its forestry policies under autonomous governance. At the national level, forestry will be much corresponding to and depending on the international interventions. Decision structure for forest policy within the Gol has to be re-identified, in order to put the whole forestry system into a systematic matter. This is necessary to produce best position and well controlled policy. Currently, most of the international policy in forestry has not been decided within the MoF.

Redefine the International Collaboration

As has been discussed in earlier sections, international partners have their own agendas for their own interests, and these have to be updated regularly. The increasing pressure and influences have to be anticipated by reviewing the total environment on the international collaboration. Ignorance on this point will cause unnecessary domination of international community, and eventually reducing the capacity of national management of forestry.

Redefine the Strategy for Institutionalizing Forestry Policies

One of the serious weaknesses in Indonesia's forestry is the implementation of policy decisions. Laws and regulations remain to be mere documents with little compliance and achievement in the implementation. In general, it can be observed that these policies were not equipped with the necessary instruments. They lack incentive-disincentive mechanism, and were

not sufficiently equipped with monitoring and control means. Last but not the least, these policies were not followed by sufficient facilities and resources to be socialized in public institutions.

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ACRONYMS

ADB	:	Asian Development Bank
ASEAN	:	Association of South East Asia Nations
AusAID	:	Australian Agency for International Development
BAPPENAS	:	The National Development Planning Board

BIOTROP	:	Tropical Biology	ICRAF	:	International Cooperation Research in Agroforestry
CGI	:	Consultative Group on Indonesia	IGGI	:	Intergovernmental Group on Indonesia
CGIF	:	Consultative Group on Indonesian Forestry	IMF	:	International Monetary Fund
CI	:	Conservation International;	IPF	:	Intergovernmental Panel on Forests
CIDA	:	Canadian International Development Agency	ITTA	:	International Tropical Timber Agreement
CIFOR	:	Center for International Forestry Research	ITTO	:	International Tropical Timber Organization
CITES	:	Convention on International Trade in Endangered Species	JICA	:	The Japan International Cooperation Agency
CSIS	:	Centre for Strategic and International Studies	MoF	:	Ministry of Forestry
DANIDA	:	Denmark International Development Agency	NAFTA	:	North America Free Trade Area
DFF	:	Donor Forum on Forestry	NGO	:	Non Government Organization
DFID	:	(UK) Department For International Development	NRM	:	Natural Resources Management
EC	:	European Commission	ODA	:	Overseas Development Assistance (UK)
EU	:	European Union	OECD	:	Overseas Economic Cooperation Fund
FINNIDA	:	Finland International Development Agency	Pusrehut	:	Center for Tropical Forest Rehabilitation
FSC	:	Forest Stewardship Council	SIDA	:	Swedish International Development Agency
GATT	:	General Agreement on Tariff and Trade	TNC	:	The Nature Conservation
GDP	:	Gross Domestic Product	UNCED	:	United Nation Conference on Economic Development
GEF	:	Global Environment Facilities	USA	:	United States of America
GIS	:	Geographical Information System	USAID	:	United State Agency for International Development
GMU	:	Gadjah Mada University	WB	:	World Bank
Gol	:	Government of Indonesia	WCFS	:	World Commission on Forests and Sustainable Development
GTZ	:	Deutsche Gessellschaft fuer Technische Zusammenarbeit (German Development Cooperation Agency)	WWF	:	World Wild Fund for Nature
IBRD	:	International Bank for Reconstruction and Development			

APPENDICES

Table 1

**FIELD OF ACTIVITIES AND SITE OF INTERNATIONAL DONORS
IN INDONESIAN FORESTRY, ON-GOING PROJECTS**

No.	Donor	Duration (yrs)	Field of Activities					Project Site	
			Policy	Technical	Pilot	Capacity Building	Others	Regional	Central
1.	ADB	7				1		1	
2.	Denmark	>5				1		1	
3.	EU	>5		1	1	5		6	1
4.	GTZ	>5				2	3	3	1
5.	JICA	>5			1	5	2	5	3
6.	SIDA-Sweden	>5			1			1	
7.	UNDP/FAO	>5					1		1
8.	CIFOR	>5					1 research	1	1
9.	WB	>5				2	1		2
10.	ICRAF	>5					1 research	1	1
11.	ITTO	>5				3	1 research	1	3
12.	UK/ODA/DFID	>5				1		1	1
13.	USA/USAID/USDA	>5							
14.	NGO, CONSERV.	>2		5		4	1	7	3
15.	NGO, OTHERS								

Table 2

**FIELD OF ACTIVITIES AND SITE OF INTERNATIONAL DONORS
IN INDONESIAN FORESTRY, TERMINATED PROJECTS**

No.	Donor	Duration (yrs)	Field of Activities					Project Site	
			Policy	Technical	Pilot Project	Capacity Building	Others	Regional	Central
1.	ADB	>5		1	9	2		10	2
2.	Denmark								
3.	EU	>5		1		1		1	
4.	GTZ								
5.	JICA	>5		3	4	2		5	1
6.	SIDA-Sweden								
7.	UNDP/FAO	>3			1	3		2	2
8.	CIFOR								
9.	WB	>5	2		3			4	1
10.	ICRAF								
11.	ITTO	>5			2	4	2 books	4	4
12.	AUSAID	>5	1			2		2	
13.	CANDA/CIDA	>5				2		2	1
14.	FRANCE	7			1			1	
15.	UK/ODA/DFID	>5	3	4	4	3	1 research	8	5
16.	USA/USAID/USDA	>5	4	2	2	1	1 research	3	5
17.	FINLAND	>5			1			1	
18.	NEW ZEALAND	3				1		1	
19.	IBRD	>5	8	2	3	4	2 research	9	7
20.	NGO, CONSERV.	1-2			15 WWF 1 other	1		15 WWF 2 others	
21.	NGO, OTHERS	>2	1					1	
22.	OTHER DONORS	Various	2			2	1 book	2	3

CONTRIBUTORS

AGUS SETYARSO. Faculty of Forestry, GMU, Yogyakarta. He is currently associated with Yayasan WWF Indonesia, Jakarta.

BOEN PURNAMA. Head of Planning Centre, Indonesian Ministry of Forestry.

CHRISTOPHER BARR. A Policy Scientist with the Center for International Forestry Research (CIFOR) in Bogor, Indonesia.

HASJIM DJALAL. Former Ambassador, a Member of Indonesian Maritime Council, and Special Adviser to the Minister of Ocean Affairs and Fisheries.

H. SYAUKANI H.R. Head (*Bupati*) of the district of Kutai Kertanegara, East Kalimantan.

JOZSEF MICKSI. Acting Director, EU – Forest Liaison Bureau, Jakarta.

JUSUF WANANDI. Member, Board of Trustees, CSIS, Jakarta.

KURNIA ROESAD. Research Staff, Department of Economics, CSIS, Jakarta.

LINDA CHRISTANTY. A forestry consultant with CFG (Concerns for Future Generations) and holds a PhD in Resource Management from the University of British Columbia.

M. DJADIJONO. Research Staff, Department of Social and Political Change, CSIS, Jakarta.

NANA SUPARNA. Graduated from Faculty of Forestry, Bogor Agricultural University, and has been active in various professional organizations on forestry, such as Association of Indonesian Foresters and Association of Indonesian Forest Concession Holders.

NEIL SCOTLAND. Studied Geography and Economics at the University of Edinburgh and Natural Resource Economics at University College, London and has been working for DFID in Indonesia for five years.

RAYMOND ATJE. Research Staff, Department of Economics, CSIS, Jakarta.

SILVER HUTABARAT. Head of the forestry and estate crops policy analysis division, Ministry of Forestry.

THOMAS E. WALTON. Environment and Social Development Sector Coordinator, The World Bank Office, Indonesia.

TUBAGUS FERIDHANUSETYAWAN. Senior Researcher, Department of Economics, CSIS, Jakarta.